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Arkansas Natural Gas Corporation

Annual Report
to Stockholders

Year Ended
December 31, 1940

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UNIVERSITY OF ILLINOIS

ARKANSAS NATURAL GAS CORPORATION

Annual Report

To the Stockholders:

The annual report of your Corporation for the calendar year 1940 is herewith submitted. Included in this report are the financial statements of the Corporation itself and consolidated financial statements of the Corporation and Subsidiaries, as reported upon by Messrs. Arthur Young & Company, Accountants and Auditors.

Operations: Gross Income of the Corporation itself for the year 1940 amounted to \$2,101,289 as compared with \$1,667,188 for the year 1939 and Net Income was \$1,811,891 in 1940 as compared with \$1,236,444 in 1939.

Consolidated Gross Operating Revenue of the Corporation and Subsidiaries amounted to \$29,351,804 for the year 1940 as compared with \$27,883,923 for the year 1939. Consolidated Net Income was \$1,616,235 in 1940 as compared with \$2,467,158 in 1939.

At the close of 1940, Consolidated Current Assets amounted to \$13,064,051 including \$5,254,977 of cash, and Consolidated Current Liabilities amounted to \$6,685,871. Consolidated Net Current Assets, or working capital, was \$6,378,180 as compared with \$6,275,975 at the end of 1939.

Combined total construction expenditures amounted to \$4,308,000 for the year and included \$1,540,000 for oil well drilling and equipment; \$769,000 for drilling gas wells; \$690,000 for natural gas pipe lines, compressor stations and distribution facilities; \$427,000 for oil and gas leases; \$262,000 for natural gasoline plant and plant equipment; \$343,000 for marketing facilities; \$142,000 for refinery plant equipment and \$135,000 for numerous small projects and equipment.

The major additions to properties during the year were 57 oil wells, 12 gas wells and 1 natural gasoline plant having a daily capacity of 20,000 gallons.

Crude oil production of Arkansas Natural Gas Corporation's Subsidiaries in 1940 amounted to 5,180,598 net barrels, compared with 4,935,816 net barrels in 1939. The average price per barrel received during 1940 was \$1.02 compared with an average price of \$1.04 in 1939.

The oil pipe lines transported 8,286,310 barrels of oil in 1940, compared with 8,962,570 barrels in 1939.

Crude oil run to refinery was 7,290,682 barrels in 1940, with corresponding gasoline production of 3,483,532 barrels.

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Refined petroleum products sold during the year 1940 amounted to 314,356,422 gallons, compared with 298,263,236 gallons sold in 1939.

Total production of natural gasoline was 24,218,655 gallons and the average sales price of this product for the year was \$.0214 per gallon. The production of all other natural gasoline plant products was 10,546,018 gallons and the average sales price for such products was \$.0172 per gallon.

The sales of natural gas amounted to 40 billion cubic feet in 1940 compared with 41.8 billion cubic feet in 1939. The number of customers at the end of 1940 was 91,936 as compared with 87,923 at the close of the previous year.

The investigation of rates of Arkansas Louisiana Gas Company by the Department of Public Utilities for the State of Arkansas was concluded by issuance of an order pursuant to which the company has reduced rate schedules in communities where previous rates schedules exceeded those contained in the order.

Financial: Consolidated Funded and Other Long Term Debt at the end of 1940 was \$18,065,114 as compared with \$18,622,201 at the close of the previous year.

The funded debt of Arkansas Louisiana Gas Company was decreased by \$600,000 by the payment of that amount due in 1940 on its first mortgage bonds.

Arkansas Fuel Oil Company issued \$5,000,000 of long term notes to banks, maturing at the rate of \$70,000 per month beginning May 1, 1940 with the final maturity of \$870,000 due on May 1, 1945 and used the proceeds thereof to retire the \$4,100,000 balance due on long term bank notes previously outstanding and to provide additional cash. The average interest rate on these new notes is approximately 3.06%, a reduction from the previous rate.

Orange State Oil Company issued \$500,000 of long term 3% notes to banks, maturing at the rate of \$16,500 per quarter beginning August 1, 1940 with the final maturity of \$186,500 due on May 1, 1945 and used the proceeds thereof to retire its outstanding general mortgage note balance of \$180,000 and to reduce indebtedness to Arkansas Fuel Oil Company.

The Management wishes to express its acknowledgment and appreciation of the loyalty and cooperation of employees of the Corporation and other companies of the system.

Respectfully submitted,

BOARD OF DIRECTORS,

BY: DAVID W. HARRIS,

Vice President and General Manager.

April 17, 1941.

ARTHUR YOUNG & COMPANY

Accountants and Auditors

New York

To the Board of Directors,
Arkansas Natural Gas Corporation,
Shreveport, Louisiana.

We have examined the balance sheet of Arkansas Natural Gas Corporation and the consolidated balance sheet of Arkansas Natural Gas Corporation and its subsidiaries at December 31, 1940 and the related statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate.

The Companies have followed the policy of providing for retirements and replacements of properties (other than oil and gas producing properties which are provided for through depletion) through the establishment of reserves designated as reserves for depreciation and retirements. The amounts of the reserves so provided and accumulated from time to time are amounts which the Management (based on studies made by engineers) believes will provide for future retirements of property. We are not in a position to express an opinion as to the adequacy of the annual appropriations or as to the balance in the reserves for depreciation and retirements at December 31, 1940.

In our opinion, subject to the comments in the preceding paragraph, the accompanying balance sheets and related statements of income and surplus, together with the notes thereon, present fairly the financial position of Arkansas Natural Gas Corporation and of the Corporation and its subsidiaries at December 31, 1940 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, with the exception of the change in accounting procedure explained in Note 2 to the consolidated balance sheet, to which we take no exception.

ARTHUR YOUNG & COMPANY

New York, N. Y.,
March 5, 1941.

ARKANSAS NATURAL GAS CORPORATION

Statements of Income and Surplus For the Year Ended December 31, 1940

STATEMENT OF INCOME

GROSS INCOME:

Interest on Indebtedness of Subsidiary Company	\$ 10,255.07	
Interest on Arkansas Louisiana Gas Company Debenture	276,250.01	
Other Interest	1,560.00	
Dividends from Subsidiary Companies	1,655,037.50	
Dividends—Other	54,112.00	
Pipe Line Rental from Subsidiary Company	103,188.42	
Miscellaneous	886.56	\$ 2,101,289.56

EXPENSES:

General and Administrative Expenses, etc.	33,623.64	
Appropriation for Depreciation and Retirements as provided by Company	20,508.78	
Taxes (exclusive of income taxes)	43,969.76	98,102.18
		<u>2,003,187.38</u>

INTEREST AND OTHER CHARGES:

Interest on Note Payable to Cities Service Company (Parent Company)	74,098.42	
Interest on Accounts Payable	247.83	74,346.25
		<u>1,928,841.13</u>

PROVISION FOR INCOME TAXES:

Federal Normal Income Tax (no excess profits tax is expected)	115,300.00	
State Income Tax	1,650.00	116,950.00

NET INCOME		<u>\$ 1,811,891.13</u>
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STATEMENT OF SURPLUS

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1939	\$30,265,104.95	\$22,406,832.28	\$3,955,385.07	\$3,902,887.60
Add:				
Net Income for the year ended December 31, 1940	1,811,891.13	—	—	1,811,891.13
Excess reserves for Federal income taxes for years 1933 to 1937, inclusive, after deducting additional assessments and interest paid in final settlement for those years	26,952.62	—	—	26,952.62
	<u>32,103,948.70</u>	<u>22,406,832.28</u>	<u>3,955,385.07</u>	<u>5,741,731.35</u>
Less:				
Dividends paid on Preferred Stock	1,968,811.20	—	—	1,968,811.20
BALANCE AT DECEMBER 31, 1940	<u>\$30,135,137.50</u>	<u>\$22,406,832.28</u>	<u>\$3,955,385.07</u>	<u>\$3,772,920.15</u>

ARKANSAS NATURAL

BALANCE

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ASSETS

INVESTMENTS:

Securities of Subsidiary Companies—partly pledged (Note 1)	\$ 59,907,660.11	
Advances to Subsidiary Company		200,000.00
Investment in 50% Owned Company, at cost—		
Lisbon Gasoline Company, Inc., Capital Stock (approximate net worth applicable thereto per that company's report—\$214,375.93)	169,039.00	
Investments in Other Securities at nominal value		7.00
Miscellaneous Investments—Plant, etc., at book value	323,791.77	
		<u>60,600,497.88</u>

CURRENT ASSETS:

Cash in Banks and on Hand	\$ 410,231.35	
Current Accounts with Subsidiary Companies	57,034.02	
Interest Receivable on Arkansas Louisiana Gas Company Debenture	<u>92,083.34</u>	559,348.71

OTHER ASSETS:

Miscellaneous Special Funds	425.00	
Balances in Closed Banks, less reserve \$1,036.19	—	
Notes and Accounts Receivable, less reserve \$1,421.08	<u>4,682.93</u>	5,107.93

\$ 61,164,954.52

NOTE 1: The total outstanding common stock of Arkansas Fuel Oil Company (together with the voting power thereof) carried under investments on the balance sheet at a value of \$24,357,724.08 is held by Cities Service Company as collateral on the note payable of \$1,219,488.06. The note is due on April 1, 1943 but 1¼% of the unpaid balance is payable semi-annually. The value referred to above for the common stock of Arkansas Fuel Oil Company does not include any portion of \$13,100,000, representing additional cost of the common stocks of both Arkansas Fuel Oil Company and Arkansas Louisiana Gas Company, which additional cost has not been specifically allocated. See also Note 1 to consolidated balance sheet.

GAS CORPORATION

SHEET

ber 31, 1940

CAPITAL AND LIABILITIES

CAPITAL STOCK:

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,730 shares, less in treasury 3,162
shares; outstanding 2,187,568 shares

\$ 21,875,680.00

Common—No par value:

Authorized 4,084,225 shares; issued 4,083,858 shares, less in treasury 3,277
shares; outstanding 4,080,581 shares—stated at

4,080,581.00

Class A Common—No par value:

Authorized 4,000,000 shares; issued 3,522,521 $\frac{1}{4}$ shares, less in treasury 250
shares; outstanding 3,522,271 $\frac{1}{4}$ shares—stated at

3,522,271.25

Reserve to provide for Exchange of Stock of Predecessor Company

3,951.90

29,482,484.15

NOTE PAYABLE TO CITIES SERVICE COMPANY (Parent Company)

(Secured) (Note 1) \$ 1,219,488.06

Less: Portion thereof due within one year carried under Current Liabilities 30,296.66

1,189,191.40

CURRENT LIABILITIES:

Accounts Payable 37,378.26

Current Portion of Note (Secured), and Interest Payable to Cities Service
Company (Parent Company) 48,588.98

Current Account with Mutual Service Company 1,467.91

Accrued Taxes and Other Charges 62,437.81

Unclaimed Preferred Dividends Payable 1,696.17

Provision for Federal Income Taxes (subject to final determination by United
States Treasury Department) 151,071.14

302,640.27

RESERVES:

For Depreciation and Retirements as provided by Company 55,501.20

SURPLUS:

Capital Surplus 22,406,832.28

Earned Surplus of Merged Companies at Date of Merger 3,955,385.07

Earned Surplus 3,772,920.15

30,135,137.50

\$ 61,164,954.52

PREFERRED STOCK DIVIDENDS UNPAID amount to \$2.55 per share or \$5,578,298.40.

CONTINGENT LIABILITIES:

Under suits and claims pending—amount indeterminate.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME

For the Year Ended December 31, 1940

GROSS OPERATING REVENUE (after deducting allowances):

Crude and Refined Oils and Accessories	\$ 21,507,973.18	
Natural Gas	<u>7,843,830.45</u>	\$ 29,351,803.63

OPERATING AND OTHER EXPENSES:

Cost of Sales, Operating, Selling, General and Administrative Expenses (including loss on Merchandise Sales and Job Work and Provision for Bad Debts) .	18,394,951.40	
Maintenance and Repairs	1,340,943.88	
Appropriation for Depletion, Depreciation and Retirements, as provided by Companies	3,944,623.05	
Cancelled Undeveloped Lease and Dry Hole Expenses	506,537.38	
Rents and Royalties (exclusive of oil royalties)	665,583.08	
Taxes (other than income taxes)	<u>1,817,358.45</u>	<u>26,669,997.24</u>

NET OPERATING REVENUE	2,681,806.39
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OTHER INCOME:

Interest	9,972.33	
Dividends	70,631.20	
Profit on Leases Sold	86,444.21	
Cash Discounts	47,793.83	
Miscellaneous	<u>18,340.84</u>	<u>233,182.41</u>

GROSS INCOME	2,914,988.80
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INTEREST AND OTHER CHARGES:

Interest on Funded Debt (including Purchase Money Obligations)	466,017.36	
Interest on Indebtedness to Cities Service Company	74,098.42	
Other Interest	250,176.47	
Carrying Charges Collected on Installment Sales (Credit)	24,254.28	
Amortization of Debt Expense	13,673.08	
Proportion of Net Income of Subsidiaries Applicable to Minority Interests—		
Dividend paid on Arkansas Fuel Oil Company Preferred Stock \$4,857.01		
Orange State Oil Company	<u>11.41</u>	<u>4,868.42</u>
		<u>784,579.47</u>
		2,130,409.33

PROVISION FOR INCOME TAXES:

Federal Normal Income Tax (no excess profits tax is expected)	464,358.15	
State Income Tax	<u>49,815.62</u>	<u>514,173.77</u>
NET INCOME		<u>\$ 1,616,235.56</u>

See explanatory Note on page Nine.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED SURPLUS

For the Year Ended December 31, 1940

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1939	\$38,187,897.03	\$22,406,832.28	\$3,955,385.07	\$11,825,679.68
Add: Net Income for the year ended December 31, 1940	1,616,235.56	—	—	1,616,235.56
Excess reserves for Federal income taxes for years 1933 to 1937, inclusive, after deducting additional assessments and interest paid in final settlement for those years	277,917.65	—	—	277,917.65
	<u>40,082,050.24</u>	<u>22,406,832.28</u>	<u>3,955,385.07</u>	<u>13,719,832.89</u>
Less: Dividends paid on Preferred Stock . . .	1,968,811.20	—	—	1,968,811.20
Arkansas rate refund, applicable to years 1938 and 1939	200,000.00	—	—	200,000.00
	<u>2,168,811.20</u>	<u>—</u>	<u>—</u>	<u>2,168,811.20</u>
BALANCE AT DECEMBER 31, 1940	<u>\$37,913,239.04</u>	<u>\$22,406,832.28</u>	<u>\$3,955,385.07</u>	<u>\$11,551,021.69</u>

Note to Statement of Consolidated Income

NOTE 1: During the year the Arkansas Louisiana Gas Company, by order of the Department of Public Utilities of the State of Arkansas, refunded an amount of \$500,000.00 to consumers in that State, of which \$200,000.00 was applicable to the years 1938 and 1939 and \$300,000.00 to the first ten months of 1940. In addition, rate reductions were ordered by the Department, to become effective from November 1, 1940. The decrease in operating revenue that will result from the reduced rates cannot be accurately determined at this time.

ARKANSAS NATURAL GAS CORP

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ASSETS

CAPITAL ASSETS:

Leaseholds, Oil and Gas Producing Properties, Storage Facilities, Pipe Lines, Refineries, Service Stations, Distribution System, etc., including Intangibles (amount undetermined) at book value (Note 6)		\$ 91,561,810.41
Excess of Investment in Securities of Subsidiary Companies herein consolidated over equity in net assets thereof at dates of acquisition		13,012,267.86
Investments—		
In 50% Owned Company, at cost—		
Lisbon Gasoline Company, Inc., Capital Stock (approximate net worth applicable thereto per that company's report—\$214,375.93)	\$ 169,039.00	
In Capital Stocks of Mutual Service Companies, at cost	65,000.00	
Miscellaneous Securities, at or below cost	77,576.64	
		<u>311,615.64</u>
		104,885,693.91

CURRENT ASSETS:

Cash in Banks and on Hand	5,254,977.67	
Customers' Accounts Receivable, including unbilled gas revenue, less reserve \$285,517.03	2,148,208.31	
Merchandise Accounts Receivable, including installment contracts extending beyond one year, less deferred interest collections of \$33,356.42 and reserve \$30,000.00	298,726.55	
Current Accounts with Affiliated Companies	4,325.30	
Miscellaneous Accounts and Notes Receivable, less reserve \$21,870.49	332,261.13	
Crude and Refined Oils, at cost (Note 2)	3,223,997.25	
Merchandise held for resale, at or below cost	473,182.58	
Materials (including construction materials) and Supplies, at or below cost	1,057,184.15	
Prepaid Insurance, Rentals and Other Expenses	271,188.43	
		<u>13,064,051.37</u>

OTHER ASSETS:

Special Cash Deposits	17,605.64	
Accounts and Notes Receivable—Not Current, less reserve \$152,944.57	161,078.38	
Cash Surrender Value of Life Insurance Policies	24,830.00	
Due from Joint-Operated Leases, etc., less reserve \$78,748.92	—	
Unliquidated Proceeds of Leases Sold, Recoverable solely out of Future Production, less reserve \$125,000.00	\$373,648.96	
Less: Reserve for Unearned Income	<u>316,384.44</u>	* 57,264.52
Advances to Personnel	830.00	
		<u>261,608.54</u>

DEFERRED CHARGES:

Unamortized Debt Expense	98,024.27	
Other Deferred Charges and Miscellaneous Unadjusted Debits	177,371.72	
		<u>275,395.99</u>
		<u>\$118,486,749.81</u>

See Schedules on page Twelve and explanatory Notes on page Thirteen.

ATION AND SUBSIDIARY COMPANIES

BALANCE SHEET

er 31, 1940

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CAPITAL AND LIABILITIES

CAPITAL STOCK OF ARKANSAS NATURAL GAS CORPORATION, per schedule attached:

Preferred Stock	\$ 21,875,680.00
Common Stock	4,080,581.00
Class A Common Stock	3,522,271.25
Reserve to provide for Exchange of Stock of Predecessor Company	3,951.90
	<u>29,482,484.15</u>

MINORITY INTEREST IN SUBSIDIARIES:

Arkansas Fuel Oil Company—	
Preferred 6% Cumulative—7,817½ shares of a par value of \$10 each	\$ 78,175.00
Orange State Oil Company—	
Common Stock (\$100.00) and Surplus (\$22.51)	122.51
	<u>78,297.51</u>

FUNDED AND OTHER LONG TERM DEBT:

Subsidiary Companies, per schedule attached—	
First Mortgage Bonds (\$600,000 due in 1941)	12,400,000.00
General Mortgage Notes (\$66,000 due in 1941)	467,000.00
Purchase Money Obligations and Mortgage Notes, maturing after one year	408,922.96
Notes Payable to Banks, maturing after one year (Note 5)	3,600,000.00
	<u>16,875,922.96</u>
Arkansas Natural Gas Corporation—	
Note Payable to Cities Service Company (Parent Company) (Secured) (Note 3)—\$1,219,488.06, less \$30,296.66 thereof due within one year carried under Current Liabilities	1,189,191.40
	<u>18,065,114.36</u>

LIABILITY TO STOCKHOLDERS OF LOUISIANA OIL REFINING CORPORATION, payable in Preferred Stock or Cash of Arkansas Fuel Oil Company

42,858.25

CURRENT LIABILITIES (exclusive of \$666,000 for 1941 requirements in respect of funded debt):

Notes Payable to Banks (Note 5)	840,000.00
Notes Payable to Others (including \$232,537.15 of purchase money obligations due within one year)	540,718.70
Accounts Payable	2,235,255.99
Current Portion of Note (Secured), Account and Interest Payable to Cities Service Company (Parent Company)	48,612.19
Current Accounts with Affiliated and Mutual Service Companies	245,685.11
Accrued Interest on Funded and Other Long Term Debt	160,649.57
Accrued Interest, Taxes and Other Charges	1,095,238.58
Customers' Deposits	658,236.70
Unclaimed Preferred Dividends Payable	1,696.17
Provision for Federal Income Taxes (subject to final determination by United States Treasury Department)	859,778.81
	<u>6,685,871.82</u>

OTHER LIABILITIES:

Drilling and Lease Costs Payable out of Future Production (\$841,858.84 thereof secured by mortgages on wells)	1,599,522.47
Notes Payable—Not Current	97,649.41
Account Payable 1942-1943	60,830.60
Advances for Line Extensions	31,858.51
	<u>1,789,860.99</u>

RESERVES:

For Depletion, Depreciation and Retirements, as provided by Companies	24,203,168.14
Contributions for Extensions—not refundable	207,206.68
Miscellaneous Reserves	18,648.87
	<u>24,429,023.69</u>

SURPLUS:

Capital Surplus	22,406,832.28
Earned Surplus of Merged Companies at Date of Merger	3,955,385.07
Earned Surplus (Notes 4 and 5)	11,551,021.69
	<u>37,913,239.04</u>
	<u>\$118,486,749.81</u>

PREFERRED STOCK DIVIDENDS UNPAID amount to \$2.55 per share or \$5,578,298.40.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

Schedules to Consolidated Balance Sheet

CAPITAL STOCK OF ARKANSAS NATURAL GAS CORPORATION

As at December 31, 1940

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,730 shares, less in treasury 3,162 shares; outstanding 2,187,568 shares	\$ 21,875,680.00
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Common—No par value:

Authorized 4,084,225 shares; issued 4,083,858 shares, less in treasury 3,277 shares; outstanding 4,080,581 shares—stated at	4,080,581.00
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Class A Common—No par value:

Authorized 4,000,000 shares; issued 3,522,521 1/4 shares, less in treasury 250 shares; outstanding 3,522,271 1/4 shares—stated at	3,522,271.25
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Reserve to provide for Exchange of Stock of Predecessor Company	3,951.90
	<u>\$ 29,482,484.15</u>

FUNDED AND OTHER LONG TERM DEBT OF SUBSIDIARY COMPANIES

As at December 31, 1940

Arkansas Louisiana Gas Company:

First Mortgage Bonds—

2 3/4% Series A due 1941-1944 (\$600,000 due in 1941)	\$ 2,700,000.00	
3 1/2% Series B due 1945-1954	9,700,000.00	\$ 12,400,000.00

Arkansas Fuel Oil Company:

Purchase Money Obligations—

Notes payable of \$584,010.11 given as part consideration for purchase of stock of subsidiary herein consolidated, secured by 719,487 shares of the stock acquired, deposited in escrow, less amount of \$225,412.15 maturing in 1941 carried under current liabilities	358,597.96
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Mortgage Notes, maturing after one year	48,225.00
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Notes Payable to Banks, maturing after one year	3,600,000.00	4,006,822.96
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Orange State Oil Company:

General Mortgage Notes, due 1941-1945 (\$66,000 due in 1941)	467,000.00
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Mortgage Notes, maturing after one year	2,100.00	469,100.00
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\$ 16,875,922.96

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

Notes to Consolidated Balance Sheet

NOTE 1: Arkansas Fuel Oil Company is referred to and included in the statements in this report as one of the consolidated subsidiaries as in previous reports to stockholders of the Corporation although the common stock of such company, including the voting power thereof for all purposes, is held by Cities Service Company as collateral. See Note 3 below. Since the Corporation is still the beneficial owner of such stock and its possession, including the voting power thereof, will again vest in the Corporation upon the discharge of the note under which the same is pledged, it is believed that the inclusion of Arkansas Fuel Oil Company in the consolidated statements will most clearly exhibit the financial condition and results of operations of the group. This, however, is without prejudice to the pending application under the Public Utility Holding Company Act for an order declaring said company not to be a subsidiary of the Corporation.

NOTE 2: Inventories of crude and refined oils have been valued at cost, which is lower than aggregate market. As at January 1, 1940, Arkansas Fuel Oil Company changed its method of pricing crude oil inventories from a basis of first-in first-out to last-in first-out, which change had no material effect upon operations of the year 1940. The cost of crude oil comprises purchases and production at average gravity posted prices, plus gathering and transportation charges at tariff rates. Refined oils at refinery and wholesale terminals and at bulk and service stations are priced at refinery cost, or at cost in the case of outside purchases, plus freight and handling. The amount of inter-company profit included in crude and refined oil inventories cannot be readily ascertained.

NOTE 3: The total outstanding common stock (eliminated in consolidation) of Arkansas Fuel Oil Company (including the voting power thereof) with a net equity value of \$29,813,671.34 as reflected in the consolidated accounts of that company is held by Cities Service Company as collateral on the note payable of \$1,219,488.06. The note is due on April 1, 1943 but $1\frac{1}{4}\%$ of the unpaid balance is payable semi-annually.

NOTE 4: So long as any of the First Mortgage Bonds, Series A or B, of Arkansas Louisiana Gas Company, a subsidiary, are outstanding, there are certain restrictions based mainly on the net income earned by that Company controlling the payment of interest or principal on the $4\frac{1}{4}\%$ Debenture (eliminated in consolidation) and of any dividend (other than stock dividends) on the capital stock of that Company to its parent, Arkansas Natural Gas Corporation. Payments made during the year 1940 by said subsidiary complied with these restrictions.

NOTE 5: Under the terms of an agreement in connection with notes payable to banks of \$4,440,000.00, certain restrictions are imposed on Arkansas Fuel Oil Company including restrictions in respect of payments of dividends and on amounts due any parent company if such payments reduce cash balances or net current assets below certain stipulated amounts.

NOTE 6: The Federal Power Commission has prescribed a uniform system of accounts for natural gas companies under its jurisdiction, effective January 1, 1940, which requires a study and restatement of gas plant of Arkansas Louisiana Gas Company, a subsidiary, to be made and completed by January 1, 1942 and a change from retirement to depreciation accounting. Until the necessary studies have been made, it is not known to what extent the accounts will be affected.

CONTINGENT LIABILITIES:

Under suits and claims pending—amount indeterminate.

It is estimated by Counsel for the Companies that the ultimate liability in respect of pending litigation and claims of substantial amount will be negligible.

Dividends aggregating \$2.40 per share have been declared payable to stockholders of Louisiana Oil Refining Corporation, who may become holders of the preferred stock of Arkansas Fuel Oil Company by reason of the surrender and exchange of their stock in Louisiana Oil Refining Corporation. The maximum amount involved at December 31, 1940 is \$4,458.00.

ARKANSAS NATURAL GAS CORPORATION

Incorporated under the Laws of the State of Delaware, U. S. A.

Shreveport, Louisiana

BOARD OF DIRECTORS

PAUL G. BENEDUM	HOUSTON, TEX.
ADDISON B. DALLY, JR.	PITTSBURGH, PA.
HARRY D. HANCOCK	NEW YORK, N. Y.
DAVID W. HARRIS	SHREVEPORT, LA.
PAUL R. JONES	NEW YORK, N. Y.
JOHN M. McMILLIN	NEW YORK, N. Y.
JOHN R. MUNCE	SARASOTA, FLA.
HENRY L. O'BRIEN	NEW YORK, N. Y.
GEORGE H. SHAW	NEW YORK, N. Y.
JOSEPH C. TREES	PITTSBURGH, PA.
HENRY C. WALKER, JR.	SHREVEPORT, LA.
BURL S. WATSON	NEW YORK, N. Y.
JOHN O. WICKS	PITTSBURGH, PA.

OFFICERS

PRESIDENT

VACANT

VICE-PRESIDENT AND GENERAL MANAGER

DAVID W. HARRIS

VICE-PRESIDENTS

PAUL R. JONES

JOHN R. MUNCE

SECRETARY

THOMAS J. HEARD

TREASURER

BRIAN R. MUIRHEAD

ASSISTANT SECRETARIES

JOSEPH T. GRIFFITH

J. CARROLL HAMILTON

EDGAR E. McWHINEY

ASSISTANT TREASURER

HAROLD G. WALTERS

AUDITORS

ARTHUR YOUNG & COMPANY

March, 1941.

This Report and the financial statements contained herein are submitted for the general information of the stockholders of the Corporation and are not intended to induce, or for use in connection with, any sale or purchase of securities.

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Arkansas Natural Gas Corporation

Annual Report
to Stockholders

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Year Ended
December 31, 1952

ARKANSAS NATURAL GAS CORPORATION

Incorporated under the Laws of the State of Delaware, U. S. A.

Shreveport, Louisiana

BOARD OF DIRECTORS

PAUL G. BENEDUM	GEORGE H. SHAW
ERLE G. CHRISTIAN	HENRY C. WALKER, JR.
ADDISON B. DALLY, JR.	CHESTER L. WALLACE
HARRY D. HANCOCK	BURL S. WATSON
EDWARD B. KELLEY	ALVIN H. WEYLAND
HENRY L. O'BRIEN	JAMES R. WYLIE, JR.

OFFICERS

HENRY C. WALKER, JR.	President
ALVIN H. WEYLAND	Vice-President & General Manager
H. THEO GOSS	Vice-President
ERLE G. CHRISTIAN	Vice-President & Assistant Treasurer
THOMAS J. HEARD	Secretary
MORTIMER J. LASSEIGNE	Treasurer
J. CARROLL HAMILTON	Assistant Secretary
CHARLES B. WEDUM	Assistant Secretary
HAROLD G. WALTERS	Assistant Treasurer

AUDITORS

ARTHUR YOUNG & COMPANY

This Annual Report is submitted for the general information of the stockholders of the Corporation and is not intended to induce, or for use in connection with, any sale or purchase of securities.

ARKANSAS NATURAL GAS CORPORATION

Annual Report

To the Stockholders:

The Annual Report of your Corporation for the calendar year 1952 is submitted herewith. Included are financial statements of the Corporation and consolidated financial statements of the Corporation and Subsidiaries, as reported upon by Messrs. Arthur Young & Company, Accountants and Auditors.

Earnings: Consolidated gross operating income for 1952 was \$158,902,058, an increase of \$11,293,592 over the amount reported for the preceding year. However, as a result of higher operating and other expenses and increased provision for income taxes, there was a slight decline in consolidated net income from \$11,141,122 in 1951 to \$10,796,996 in 1952.

After payment of dividends on preferred stock, the balance of consolidated net income for 1952 was equivalent to \$1.25 per share on the combined total shares of Common and Class A Stock outstanding, compared with \$1.29 per share for the preceding year.

With respect to the Corporation itself, gross income was \$5,550,876 and net income was \$4,896,615 for 1952 compared with gross income of \$6,362,641 and net income of \$5,751,862 for 1951.

Financial: Consolidated working capital, represented by the excess of current assets over current liabilities, amounted to \$17,890,478 at December 31, 1952 compared with \$21,592,778 at the end of the preceding year. Consolidated cash balances at December 31, 1952 totaled \$15,525,621 compared with \$15,744,491 at the end of 1951.

No new financing took place during the year. Subsidiary companies' note indebtedness to banks was reduced by \$1,833,359. Of this amount, installment payments of \$1,250,000 were made by Arkansas Louisiana Gas Company, and payments of \$583,359 were made by Arkansas Fuel Oil Company which discharged in full its note indebtedness to banks. At the end of the year, notes payable to banks amounted to \$25,125,000, all of which were outstanding obligations of Arkansas Louisiana Gas Company.

Operations: Crude oil production in 1952 amounted to 5,108,615 net barrels compared with 5,107,609 net barrels in 1951. The average price per barrel received during 1952 was \$2.60 which was the same as that for 1951.

Refined petroleum products sold during 1952 amounted to 571,488,870 gallons compared with 521,276,017 gallons sold in 1951.

The oil pipe lines transported 10,294,403 barrels of oil in 1952 compared with 9,793,286 barrels in 1951.

The production of natural gasoline plant products during the year amounted to 204,456,650 gallons compared with 199,801,687 gallons in 1951 and the average sales price for these products was \$.0617 per gallon compared with \$.0634 per gallon in 1951.

Natural gas sales amounted to 194.8 billion cubic feet in 1952 compared with 192.0 billion cubic feet in 1951. The number of natural gas customers at the end of 1952 was 214,614, an addition of 11,380 during the year.

Construction: Combined total construction expenditures for the year amounted to \$12,694,000 and included \$1,625,000 for oil well drilling and equipment; \$783,000 for drilling gas wells; \$6,593,000 for natural gas pipe lines, compressor stations and distribution facilities; \$1,082,000 for oil and gas leases; \$950,000 for natural gasoline plants and plant equipment; \$1,258,000 for marketing facilities; \$24,000 for refinery lube compounding and blending equipment; \$44,000 for oil pipe lines; and \$335,000 for transportation equipment and for numerous small projects and equipment.

In addition, Arkansas Fuel Oil Company expended \$107,928 for the purchase of the outstanding sixty percent interest in Arkana Transit Corporation which owns and operates a common carrier crude oil pipeline system consisting of a trunk line of 35 miles from Stephens, Arkansas

to Haynesville, Louisiana, and a field gathering system consisting of 31 miles of pipe in the Stephens, Arkansas field.

Subsidiary companies' drilling activities, including participation in drillings by others, resulted in the completion of 46 wells comprising 12 full interest and 15 part-interest oil wells and 5 full interest and 14 part-interest gas wells. Most of these well completions were located in Louisiana and Texas.

Arkansas Fuel Oil Company was active during the year in pursuing its program of increasing the efficiency and capacity of its natural gasoline plants. Facilities to enlarge the capacity of the Bistineau Plant by 20,000 MCF of gas per day were completed. Construction began on facilities, expected to be put into operation in 1953, to add 20,000 MCF of gas to the daily capacity of the Sligo Plant and to increase butane and propane recovery at the Columbia and Jefferson Plants. In addition, numerous smaller changes and improvements were completed.

Arkansas Louisiana Gas Company placed in operation its newly constructed 7500 horsepower compressor station near Beirne, Arkansas. In addition, seventeen compressor units totaling 3210 horsepower were installed in the Waskom, Carthage, and Bistineau Fields. Several sections of pipeline of various sizes totaling 36 miles were added to its transportation and field gathering system. Also, a total of 152 miles of distribution lines were constructed, including new distribution systems in two small communities in Arkansas and one in Texas, and numerous extensions to existing systems to serve new customers and new real estate sub-divisions.

Gas Rate Litigation: Proceedings instituted in 1950 before the Arkansas Public Service Commission with respect to increased rates charged by Arkansas Louisiana Gas Company to large industrial customers were concluded in December 1952 by the issuance of an order by that commission approving new rates for industrial service. The newly approved rates are substantially higher than those in effect prior to the proceedings and are consistent with recent upward trends in purchased gas costs. No serious impairment of customer relations was experienced in connection with this rate change.

Upon the final determination of the revised increased rates, Arkansas Louisiana Gas Company was permitted to retain \$2,112,000 and directed to refund \$430,000 of the total amount of \$2,542,000 which it had collected from, or billed, the customers involved for the increase in rates charged during the pendency of these proceedings.

Public Utility Holding Company Act: The Securities and Exchange Commission on October 1, 1952 approved the Amended Plan for the Simplification of the Corporate Structure of the Corporation to which reference was made in our last Annual Report. By Order dated January 29, 1953, the United States District Court for the District of Delaware also approved the Plan as fair and equitable and as appropriate to effectuate the provisions of Section 11 of the Public Utility Holding Company Act and ordered that unless a stay be issued the necessary steps be taken to consummate the Plan as soon as practicable. Reference is made to Note 3 to the financial statements for a brief summary of the principal provisions of the Plan. Approval of the Plan was opposed during the proceedings before the Securities and Exchange Commission and before the Court by the Common Stockholders' Protective Committee and by a Committee representing certain holders of the Class A Common Stock of the Corporation. On February 27, 1953, subsequent to the date of the auditors' report on February 25, 1953, the Common Stockholders' Protective Committee filed notice of appeal to the United States Court of Appeals for the Third Circuit from the Order of the United States District Court. However, up to March 19, 1953, no stay has been issued to prevent the carrying out of the Plan. It is anticipated that the Plan will be consummated in 1953.

The Board acknowledges with appreciation the cooperation and loyal service of its employees.

Respectfully submitted,

BOARD OF DIRECTORS

By H. C. WALKER, JR.
President

March 19, 1953

ARTHUR YOUNG & COMPANY

ACCOUNTANTS AND AUDITORS

165 BROADWAY

NEW YORK 6, N. Y.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of

Arkansas Natural Gas Corporation:

We have examined the balance sheet of Arkansas Natural Gas Corporation and the consolidated balance sheet of Arkansas Natural Gas Corporation and Subsidiaries at December 31, 1952 and the related statements of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income and earned surplus present fairly the financial position of Arkansas Natural Gas Corporation and of Arkansas Natural Gas Corporation and Subsidiaries at December 31, 1952 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.

February 25, 1953

ARKANSAS NATURAL GAS C

CONSOLIDATE

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ASSETS

PROPERTIES:

Leaseholds, oil and gas producing properties, storage facilities, pipelines, plants, service stations, distribution systems, etc., including intangibles (amount undetermined) — at book value	\$158,976,271	
Less: Reserves for depletion and depreciation	<u>57,516,858</u>	\$101,459,413
Excess of investments in securities of consolidated subsidiary companies over equity in net assets thereof at dates of acquisition		<u>13,355,345</u>
		114,814,758

INVESTMENTS:

In capital stocks of mutual service companies, at cost	65,000	
Miscellaneous investments, at or below cost	<u>119,376</u>	184,376

CURRENT ASSETS:

Cash	15,525,621	
Customers' accounts receivable, less reserves \$449,620	8,906,739	
Due from agencies of U. S. Government	337,697	
Current accounts with affiliated companies	204,301	
Miscellaneous accounts and notes receivable, less reserves \$9,982	1,970,030	
Crude oil, at cost (last-in, first-out basis which is lower than market)	626,995	
Refined oil, at cost (last-in, first-out basis which is lower than market)	7,821,081	
Accessories and merchandise for resale, at or below cost	1,476,999	
Materials (including construction materials) and supplies, at or below average cost	2,911,372	
Prepaid insurance, rentals and other expenses	<u>459,974</u>	40,240,809

ACCOUNTS AND NOTES RECEIVABLE — not current, less reserves \$114,048 51,569

DEFERRED CHARGES 235,339

\$155,526,851

See pages Thirteen and Fourteen for Notes to financial statements.

CORPORATION AND SUBSIDIARIES

BALANCE SHEET

31, 1952

CAPITAL AND LIABILITIES

CAPITAL STOCK AND SURPLUS:

Capital stock of Arkansas Natural Gas Corporation:

Preferred 6% cumulative — \$10 par value:

Authorized 2,193,000 shares; issued 2,190,938 shares, less in
treasury 3,162 shares; outstanding 2,187,776 shares \$ 21,877,760

Common — no par value:

Authorized 4,084,225 shares; issued 4,084,078 shares, less in
treasury 3,277 shares; outstanding 4,080,801 shares — stated at 4,080,801

Class A Common (non-voting) — no par value:

Authorized 4,000,000 shares; issued 3,522,521 $\frac{1}{4}$ shares, less in
treasury 250 shares; outstanding 3,522,271 $\frac{1}{4}$ shares — stated at 3,522,271

Reserve to provide for exchange of stock of predecessor company

(142 shares of preferred stock at \$10 per share and 147 shares
of common stock at \$1 per share) 1,567

29,482,399

Capital surplus (no change during year) \$22,406,832

Earned surplus of merged companies at date of merger (no change
during year) 3,955,385

Earned surplus (Note 1) 49,358,833 75,721,050

105,203,449

LONG TERM DEBT:

Subsidiary companies:

Notes payable to bank, maturing after one year (Note 1) 23,875,000

Lease purchase obligations, maturing after one year 1,842,671 25,717,671

CURRENT LIABILITIES:

Notes payable to bank (Note 1) 1,250,000

Lease purchase obligations 368,199

Accounts payable 8,860,021

Current accounts with affiliated and mutual service companies 1,029,589

Accrued interest, taxes and other charges 2,808,050

Customers' deposits 1,920,270

Provision for Federal income taxes, less U. S. Treasury Savings Notes,

Series A, at cost and accrued interest \$410,660 6,114,202 22,350,331

OTHER LIABILITIES:

Advances for line extensions 1,056,077

Gas revenue deferred pending final determination of rates 198,914

Miscellaneous accounts 184,908 1,439,899

CONTRIBUTIONS FOR EXTENSIONS — not refundable 815,501

\$155,526,851

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME

For the Year Ended December 31, 1952

GROSS OPERATING INCOME:

Crude and refined oils and accessories (including sales of purchased crude oil — \$27,369,228)	\$128,609,592	
Natural gas	<u>30,292,466</u>	\$158,902,058

OPERATING AND OTHER EXPENSES:

Cost of sales and operating expenses (exclusive of items shown separately below)	112,117,721	
Maintenance and repairs	5,473,927	
Provision for depletion and depreciation (Note 2)	5,908,516	
Canceled undeveloped lease and dry hole expenses	1,565,642	
Taxes, other than income taxes	4,291,248	
Selling, general and administrative expenses	<u>12,941,793</u>	142,298,847
		<u>16,603,211</u>

OTHER INCOME		<u>207,813</u>
		16,811,024

INTEREST AND OTHER CHARGES:

Interest on long term debt	828,719	
Interest — other	149,532	
Miscellaneous income deductions	<u>36,609</u>	1,014,860
		<u>15,796,164</u>

PROVISION FOR INCOME TAXES:

Federal (no excess profits tax)	4,840,287	
State	<u>158,881</u>	<u>4,999,168</u>

NET INCOME		<u><u>\$ 10,796,996</u></u>
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See pages Thirteen and Fourteen for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED EARNED SURPLUS

For the Year Ended December 31, 1952

BALANCE AT DECEMBER 31, 1951	\$44,436,346
--	--------------

Add:

Net income for the year ended December 31, 1952	10,796,996
	<u>55,233,342</u>

Deduct:

Dividends paid:

On preferred stock — \$.60 per share	\$1,312,666	
On common stock — \$.60 per share	2,448,480	
On class A common stock — \$.60 per share	<u>2,113,363</u>	<u>5,874,509</u>

BALANCE AT DECEMBER 31, 1952 (Note 1)	<u><u>\$49,358,833</u></u>
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See pages Thirteen and Fourteen for Notes to financial statements.

ARKANSAS NATURAL
BALANCE
At Decem

ASSETS

INVESTMENTS:

Securities of subsidiary companies		\$59,907,660
Miscellaneous investments — plant, etc., at book value	\$ 317,541	
Less: Reserve for depreciation	260,819	56,722
		<u>59,964,382</u>

CURRENT ASSETS:

Cash	901,443	
Interest receivable on Arkansas Louisiana Gas Company Debenture . .	92,083	
Accounts receivable	46,806	
		<u>1,040,332</u>

OTHER ASSETS AND DEFERRED CHARGES	1,316
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\$61,006,030

See pages Thirteen and Fourteen for Notes to financial statements.

GAS CORPORATION

SHEET

or 31, 1952

CAPITAL AND LIABILITIES

CAPITAL STOCK AND SURPLUS:

Preferred 6% cumulative stock — \$10 par value:

Authorized 2,193,000 shares; issued 2,190,938 shares, less in treasury 3,162 shares; outstanding 2,187,776 shares	\$21,877,760
--	--------------

Common stock — no par value:

Authorized 4,084,225 shares; issued 4,084,078 shares, less in treasury 3,277 shares; outstanding 4,080,801 shares — stated at	4,080,801
--	-----------

Class A common stock (non-voting) — no par value:

Authorized 4,000,000 shares; issued 3,522,521¼ shares, less in treasury 250 shares; outstanding 3,522,271¼ shares — stated at	3,522,271
--	-----------

Reserve to provide for exchange of stock of predecessor company (142 shares of preferred stock at \$10 per share and 147 shares of common stock at \$1 per share)	1,567
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29,482,399

Capital surplus (no change during year)	\$22,406,832
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Earned surplus of merged companies at date of merger (no change during year)	3,955,385
---	-----------

Earned surplus	4,479,832	<u>30,842,049</u>
		<u>60,324,448</u>

CURRENT LIABILITIES:

Accounts payable	112,047
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Current accounts with subsidiary and mutual service companies . . .	7,905
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Accrued taxes and other charges	113,869
---	---------

Provision for Federal income taxes	447,761
--	---------

681,582

\$61,006,030

ARKANSAS NATURAL GAS CORPORATION

STATEMENTS OF INCOME AND EARNED SURPLUS

For the Year Ended December 31, 1952

STATEMENT OF INCOME

GROSS INCOME:

Interest on Arkansas Louisiana Gas Company Debenture	\$ 276,250	
Dividends from Arkansas Fuel Oil Company	5,202,969	
Pipeline rent from Arkansas Louisiana Gas Company	66,000	
Miscellaneous	<u>5,657</u>	\$ 5,550,876

EXPENSES:

General and administrative expenses	166,271	
Provision for depreciation	16,577	
Taxes, other than income taxes	39,659	
Miscellaneous	<u>1,375</u>	223,882
		<u>5,326,994</u>

PROVISION FOR INCOME TAXES:

Federal (proportion of consolidated income taxes) (no excess profits tax)	429,479	
State	<u>900</u>	430,379

NET INCOME		<u>\$ 4,896,615</u>
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STATEMENT OF EARNED SURPLUS

BALANCE AT DECEMBER 31, 1951	\$ 5,457,726
--	--------------

Add: Net income for the year ended December 31, 1952	<u>4,896,615</u>
--	------------------

10,354,341

Deduct:

Dividends paid:

On preferred stock — \$.60 per share	\$ 1,312,666	
On common stock — \$.60 per share	2,448,480	
On class A common stock — \$.60 per share	<u>2,113,363</u>	5,874,509

BALANCE AT DECEMBER 31, 1952	<u>\$ 4,479,832</u>
--	---------------------

See pages Thirteen and Fourteen for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1:

The notes payable to bank maturing after one year are payable by Arkansas Louisiana Gas Company, a consolidated subsidiary, as follows:

2¼% note payable in seven semi-annual instalments of \$625,000 each beginning April 15, 1954 and ending April 15, 1957 (instalments due in 1953 aggregating \$1,250,000 are included in current liabilities)	\$ 4,375,000
3¼% notes due March 15, 1954	17,000,000
2½% notes due October 15, 1957	2,500,000
	<u>\$23,875,000</u>

Under the terms of its loan agreements, certain restrictions are imposed on Arkansas Louisiana Gas Company, including restrictions on the payment of dividends. Dividends paid by the company must not reduce current assets of the company to less than 125% of its current liabilities. The agreement provides that in calculating the foregoing restriction (1) current assets shall be after deducting therefrom the provision for Federal income taxes, and (2) current liabilities shall be after deducting therefrom the amount of customers' deposits and the above-mentioned provision for Federal income taxes. The restriction thus imposed on consolidated earned surplus at December 31, 1952 amounts to \$11,740,229.

NOTE 2:

The depreciation provided by the Companies is based on current studies made by independent engineers and represents, substantially, the amount considered necessary by them to write off the undepreciated balance of the property, net of estimated salvage, during its remaining useful life, including allowances for retirements resulting from replacements necessary during that period.

The provision for depletion of producing oil and gas properties is determined on an overall basis by dividing the recoverable oil and gas reserves estimated by engineers into the undepleted cost of the producing properties, net of estimated salvage, plus the estimated future development costs of the said reserves.

NOTE 3:

The Amended Plan for the Simplification of its Corporate Structure, filed with the Securities and Exchange Commission by Arkansas Natural Gas Corporation, in which Cities Service Company joined, pursuant to Section 11(e) of the Public Utility Holding Company Act and to which reference was made in the Annual Report for 1951, has been approved. The Securities and Exchange Commission, by Order dated October 1, 1952, approved the Amended Plan and thereupon filed an application in the United States District Court for the District of Delaware for its enforcement. By Order dated January 29, 1953, Civil Action No. 1498, the Court approved the Amended Plan as fair and equitable and appropriate to effectuate the provisions of Section 11 of the Act and ordered that the necessary steps be taken to consummate the Plan as soon as practicable and without awaiting expiration of any appeal period unless a stay of execution shall theretofore be granted by an appropriate Court, in which event such action shall be taken as soon as practicable after the termination of such stay.

The Amended Plan provides, among other things, for:

- (a) The merger of Arkansas Fuel Oil Company into Arkansas Natural Gas Corporation, and the change of name of Arkansas Natural Gas Corporation to Arkansas Fuel Oil Corporation;

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

- (b) The distribution by Arkansas Natural Gas Corporation of a \$5.00 par value common stock of Arkansas Louisiana Gas Company to the holders of its common and class A stock on the basis of one-half share of common stock of Arkansas Louisiana Gas Company for each share of common or class A stock of Arkansas Natural Gas Corporation;
- (c) The surrender by Arkansas Natural Gas Corporation for cancellation, as a donation of capital to Arkansas Louisiana Gas Company, of the debenture issue of \$6,500,000 (eliminated in the consolidated accounts);
- (d) The issuance and sale by Arkansas Natural Gas Corporation (after merger and change of name) of \$23,000,000 principal amount of its 20-year Sinking Fund Debentures, less such principal amount as may be required for exchanges referred to below, the proceeds of which (together with such other corporate funds which may be required) will be used to retire its present 6% cumulative preferred stock, \$10 par value at \$10.60 per share, or an aggregate amount of \$23,191,930 plus accrued dividends. Arrangements will be made to provide an opportunity to holders of the preferred stock, other than Cities Service Company, to exchange their holdings for Debentures, with appropriate cash adjustments;
- (e) The conversion of both the class A and common stocks of Arkansas Natural Gas Corporation into a new common stock having a par value of \$5.00 per share, on the basis of one-half share for each share presently outstanding;
- (f) The issuance and sale by Arkansas Louisiana Gas Company of \$35,000,000 principal amount of First Mortgage Bonds, the proceeds of which will be used to pay its indebtedness to bank and the balance for construction work; and
- (g) Payment by Cities Service Company in compromise settlement and discharge of all claims asserted or which may be asserted against it and its subsidiaries at a rate of \$1.50 and \$.25 per share to each holder of class A stock and common stock, respectively, except directors and officers of Arkansas Natural Gas Corporation or its Subsidiaries or of Cities Service Company, and certain holders entitled to receive 1% or more of the common stock in exchange for stock of a predecessor company at the formation of Arkansas Natural Gas Corporation.

Approval of the Plan was opposed, during the proceedings before the Securities and Exchange Commission and before the Court, by the Public Common Stockholders Protective Committee and by a Committee representing certain holders of the class A common stock of the Corporation. Whether or not either of these Committees will appeal from the Order of the Court is not known. The appeal period expires March 30, 1953.

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Arkansas Natural Gas Corporation

Annual Report
to Stockholders

Year Ended
December 31, 1948

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The annual meeting of stockholders of the Corporation will be held on October 20, 1949, at Dover, Delaware. It is expected that proxies for that meeting will be requested by the Management and that the notice of meeting, proxy statement and form of proxy will be mailed to stockholders on or before September 29, 1949. This Annual Report containing financial statements is not and must not be considered as proxy soliciting material or as a report or document filed pursuant to the Securities Exchange Act or any rule or regulation thereunder.

This Annual Report is submitted for the general information of the stockholders of the Corporation and is not intended to induce, or for use in connection with, any sale or purchase of securities.

338.7

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1948

ARKANSAS NATURAL GAS CORPORATION

Annual Report

To the Stockholders:

The Annual Report of your Corporation for the calendar year 1948 is submitted herewith. Included are financial statements of the Corporation and consolidated financial statements of the Corporation and Subsidiaries, as reported upon by Messrs. Arthur Young & Company, Accountants and Auditors.

Earnings: Consolidated Gross Operating Revenue for 1948 was \$114,826,408, as compared with \$86,258,317 for 1947. Consolidated Net Income for 1948 was \$12,286,140, as compared with \$7,377,373 for 1947.

The Gross Income of the Corporation for 1948 was \$4,937,415, as compared with \$1,865,148 for 1947 and the Net Income for 1948 was \$4,432,649, as compared with \$1,556,855 for 1947.

Financial: Consolidated Current Assets at December 31, 1948 were \$36,793,253 including \$18,353,870 of cash, as compared with Consolidated Current Assets of \$30,166,671, including \$15,443,971 of cash at December 31, 1947. Consolidated Current Liabilities were \$17,611,267 at December 31, 1948, as compared with Consolidated Current Liabilities of \$14,309,183 at December 31, 1947.

Consolidated Long Term Debt at the end of 1948 was \$14,466,476, as compared with \$14,096,097 at the close of the previous year.

Arkansas Louisiana Gas Company in October, under a bank credit arrangement entered into in 1947, borrowed \$2,500,000 on 2½% notes maturing October 15, 1957, the proceeds from which provided funds for construction purposes. This borrowing less instalment payments of \$1,000,000 made on previously issued notes resulted in a net increase of \$1,500,000 in the company's outstanding bank note indebtedness.

Arkansas Fuel Oil Company reduced its bank note indebtedness and purchase money obligations by \$1,004,621 by the payment of serial maturities during the year.

Subsidiary Companies' Operations: Crude oil production in 1948 amounted to 5,763,605 net barrels compared with 5,402,152 net barrels in 1947. The average price per barrel received during 1948 was \$2.63 compared with an average price of \$1.97 in 1947.

Refined petroleum products sold during the year amounted to 381,523,733 gallons compared with 382,814,481 gallons sold in 1947.

The oil pipe lines transported 9,314,026 barrels of oil in 1948 compared with 8,269,694 barrels in 1947.

The production of natural gasoline plant products during the year amounted to 112,365,500 gallons compared with 89,301,188 gallons in 1947 and the average sales price for these products was \$.0821 per gallon compared with \$.0562 per gallon in 1947.

Natural gas sales amounted to 133.8 billion cubic feet in 1948 as compared with 112.2 billion cubic feet in 1947. The number of customers at the end of 1948 was 164,111 as compared to 153,910 at the close of the previous year.

Construction: Combined total construction expenditures for the year amounted to \$10,360,000, an increase over 1947 of \$2,920,000, and included \$1,992,000 for oil well drilling and equipment; \$843,000 for drilling gas wells; \$3,801,000 for natural gas pipe lines, compressor stations and distribution facilities; \$765,000 for oil and gas leases, \$1,840,000 for natural gasoline plants and plant equipment; \$830,000 for marketing facilities; \$30,000 for refinery lube compounding and blending equipment; and \$259,000 for transportation equipment and for numerous small projects and equipment.

Arkansas Fuel Oil Company drilled and completed 34 oil wells in Louisiana and 18 oil wells, including one part-interest oil well and the participation in the drilling of two additional oil wells, in Texas. Also, one gas well was drilled by this company in Texas.

Completion of the construction work at the Panola County, Texas gasoline plant to increase the gas processing capacity to one hundred million cubic feet daily and to separate the production of butane and propane was effected during the year. Other additions and improvements were made, or are in the process of being made, at practically all of the principal gasoline plants to improve operating efficiencies and increase capacities, as well as to replace worn equipment.

Arkansas Louisiana Gas Company drilled and completed seven producing gas wells during the year, one in the Waskom, Texas field, and six, including three part-interest wells, in the Carthage, Texas field. In addition, substantial interest was acquired in four gas wells located in the Carthage field and one in the Jefferson, Texas field. The company increased its transmission and field lines 56.86 miles, mainly comprising lines to connect new fields to Arkansas Fuel Oil Company's Columbia gas treating plant. Numerous distribution line extensions totaling 149.22 miles were constructed to serve new real estate subdivisions and new customers, and one distribution system was installed in a small town in Arkansas.

Public Utility Holding Company Act: As stated in previous Annual Reports of the Corporation, an order of the Securities and Exchange Commission of May 5, 1944 required the Corporation to divest itself of its interest in various nonutility properties. After careful consideration, your management reached the conclusion that because the nonutility properties relatively constitute the major portion of the total system assets, it is preferable to meet the requirements of Section 11 (b)(1) of the Public Utility Holding Company Act by the retention of the nonutility properties and disposition of the utility properties. Accordingly, an appropriate application was filed in March 1948 with the Securities and Exchange Commission setting forth a proposed plan for the disposal of the gas distribution properties of Arkansas Louisiana Gas Company. This application was the subject of formal hearing and evidence thereon was taken and submitted, but no order with respect thereto has been issued by the Commission.

In February 1949, the Commission issued an order, a copy of which was mailed to stockholders under date of March 8, 1949, consolidating the above proceeding with a new proceeding then instituted by it under Section 11(b)(2) of the Act directed to the Corporation and its subsidiaries and to Cities Service Company, to determine, among other things, whether the Corporation's corporate structure unduly complicates the corporate structure of the holding company system of which it is a part or unfairly and inequitably distributes voting power among its security holders. The Corporation and its subsidiaries and Cities Service Company are required to file on or before April 18, 1949 answers stating their respective positions, including their views as to appropriate action, if any, to eliminate complexity of corporate structure and to distribute voting power of the security holders of the Corporation. The order directs attention to the question of granting and permitting to become effective in whole or in part the application above-mentioned filed in March 1948, prior to the termination of the other matters and issues.

Your Board wishes to express its grateful acknowledgment and appreciation of the loyalty and cooperation of the employees of the Corporation and its subsidiaries.

Respectfully submitted,

BOARD OF DIRECTORS

By H. C. WALKER, JR.
President.

March 24, 1949

ARTHUR YOUNG & COMPANY

Accountants and Auditors

1 Cedar Street

New York 5, N. Y.

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Arkansas Natural Gas Corporation:

We have examined the balance sheet of Arkansas Natural Gas Corporation and the consolidated balance sheet of Arkansas Natural Gas Corporation and Subsidiaries at December 31, 1948 and the related statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the adjustments which may ultimately be required to be made in respect of recording the original cost of gas plant, as explained in Note 1 to financial statements, the accompanying balance sheets and statements of income and surplus present fairly the financial position of Arkansas Natural Gas Corporation and of Arkansas Natural Gas Corporation and Subsidiaries at December 31, 1948, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.
February 18, 1949.

ARKANSAS NATURAL GAS CORPORATION

CONSOLIDATED

At December 31, 1965

ASSETS

CAPITAL ASSETS:

Leaseholds, oil and gas producing properties, storage facilities, pipelines, plants, service stations, distribution system, etc., including intangibles (amount undetermined) — at book value (Note 1)	\$122,949,108.95	
Less: Reserves for depletion, depreciation, and retirements (Note 1)	48,214,506.97	\$ 74,734,601.98
Excess of investments in securities of consolidated subsidiary companies over equity in net assets thereof at dates of acquisition		13,012,302.93
Investments:		
In 50% owned company, at cost —		
Lisbon Gasoline Company, Inc., capital stock (approximate net assets applicable thereto per that company's unaudited financial statements — \$473,000)	169,039.00	
In capital stocks of mutual service companies, at cost	65,000.00	
Miscellaneous investments, at or below cost	135,801.50	369,840.50
		<u>88,116,745.41</u>

CURRENT ASSETS:

Cash in banks and on hand	18,353,870.39	
U. S. Treasury Savings Notes, Series D, at cost	1,600,000.00	
Customers' accounts receivable, including unbilled gas revenue, less reserve \$466,792.61 (Note 2)	5,066,694.11	
Merchandise accounts receivable, less deferred carrying charges \$5,368.52 and reserve \$4,506.31	142,100.05	
Due from agencies of U. S. Government	155,616.79	
Current accounts with affiliated companies	290,572.18	
Miscellaneous accounts and notes receivable, less reserve \$10,000.00	531,635.09	
Crude oil, at cost (Note 3)	746,811.94	
Refined oil, at cost (Note 3)	5,845,801.41	
Accessories and merchandise for resale, at or below cost	1,111,702.60	
Materials (including construction materials) and supplies, at or below average cost	2,674,036.84	
Prepaid insurance, rentals, and other expenses	274,411.19	36,793,252.59

OTHER ASSETS:

Special cash deposits	21,012.79	
Accounts and notes receivable—not current, less reserve \$97,268.51	56,326.53	
Unliquidated proceeds of leases sold, recoverable solely out of future production	\$39,651.62	
Less: Reserve for unearned income	35,983.27	3,668.35
		<u>81,007.67</u>

DEFERRED CHARGES:

Unamortized debt expense	12,989.07	
Other deferred charges and miscellaneous unadjusted debits	292,111.22	305,100.29
		<u>\$125,296,105.96</u>

See pages Ten and Eleven for Notes to financial statements.

ATION AND SUBSIDIARY COMPANIES

BALANCE SHEET

er 31, 1948

CAPITAL AND LIABILITIES

CAPITAL STOCK OF ARKANSAS NATURAL GAS CORPORATION:

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,924 shares, less in treasury 3,162 shares; outstanding 2,187,762 shares

\$ 21,877,620.00

Common—no par value:

Authorized 4,084,225 shares; issued 4,084,063 shares, less in treasury 3,277 shares; outstanding 4,080,786 shares — stated at

4,080,786.00

Class A Common (non-voting)—no par value:

Authorized 4,000,000 shares; issued 3,522,521 $\frac{1}{4}$ shares, less in treasury 250 shares; outstanding 3,522,271 $\frac{1}{4}$ shares — stated at

3,522,271.25

Reserve to provide for exchange of stock of predecessor company

(156 shares of preferred stock at \$10 per share and 162 shares of common stock at \$1 per share)

1,722.00

29,482,399.25

LONG TERM DEBT:

Subsidiary companies:

Notes payable to banks, maturing after one year (Note 4) \$14,458,351.00

Purchase money obligations, maturing after one year 8,125.00

14,466,476.00

CURRENT LIABILITIES:

Notes payable—subsidiary companies:

Banks (Note 4) 2,124,996.00

Purchase money obligations 4,625.00

2,129,621.00

Accounts payable 5,755,755.22

Current accounts with affiliated and mutual service companies 46,560.91

Accrued interest, taxes, and other charges 1,698,906.03

Customers' deposits 1,437,706.01

Provision for Federal income taxes 6,542,717.43

17,611,266.60

OTHER LIABILITIES:

Advances for line extensions (including \$1,686,248.95 from agencies of U. S. Government)

2,152,526.85

Lease costs payable out of future production 88,142.73

Miscellaneous accounts 177,150.86

2,417,820.44

CONTRIBUTIONS FOR EXTENSIONS — not refundable

480,443.26

SURPLUS:

Capital surplus 22,406,832.28

Earned surplus of merged companies at date of merger 3,955,385.07

Earned surplus (Notes 1 and 4) 34,475,483.06

60,837,700.41

\$125,296,105.96

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME

For the Year ended December 31, 1948

GROSS OPERATING REVENUE (after deducting allowances):

Crude and refined oils and accessories	\$ 97,435,712.83	
Natural gas	17,390,695.08	\$114,826,407.91

OPERATING AND OTHER EXPENSES:

Cost of sales, operating, selling, general, and administrative expenses (including operations from merchandise sales and job work)	83,308,899.97	
Maintenance and repairs	4,004,842.67	
Provision for depletion, depreciation, and retirements (Note 5)	4,863,249.32	
Canceled undeveloped lease and dry hole expenses	679,310.35	
Rents and royalties (exclusive of oil royalties)	690,257.89	
Taxes (other than income taxes)	2,928,244.31	96,474,804.51

NET OPERATING REVENUE	18,351,603.40
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OTHER INCOME:

Interest and dividends	232,013.00	
Cash discounts	56,858.04	
Miscellaneous	65,296.71	354,167.75
		18,705,771.15

INTEREST AND OTHER CHARGES:

Interest on notes and accounts payable	415,917.72	
Interest on customers' deposits	77,033.10	
Amortization of debt expense	2,541.25	
Miscellaneous income deductions	57,129.12	552,621.19
		18,153,149.96

PROVISION FOR INCOME TAXES:

Federal income taxes	5,512,084.10	
State income taxes	354,925.90	5,867,010.00

NET INCOME	\$ 12,286,139.96
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See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES
STATEMENT OF CONSOLIDATED SURPLUS
For the Year ended December 31, 1948

	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1947	\$22,406,832.28	\$3,955,385.07	\$26,287,525.40
Add:			
Net income for the year ended December 31, 1948	—	—	12,286,139.96
Excess accruals for Federal and State income taxes for prior years	—	—	255,664.60
	<u>22,406,832.28</u>	<u>3,955,385.07</u>	<u>38,829,329.96</u>
Less:			
Dividends paid:			
On preferred stock — \$.60 per share	—	—	1,312,638.00
On common stock — \$.40 per share	—	—	1,632,300.40
On class A common stock — \$.40 per share	—	—	1,408,908.50
	<u>—</u>	<u>—</u>	<u>4,353,846.90</u>
BALANCE AT DECEMBER 31, 1948 (Notes 1 and 4)	<u>\$22,406,832.28</u>	<u>\$3,955,385.07</u>	<u>\$34,475,483.06</u>

See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1948

Note 1:

Arkansas Louisiana Gas Company, a consolidated subsidiary, is required to restate its property accounts in accordance with a uniform system of accounts prescribed by the Federal Power Commission, which requires that the properties be stated at original cost when first devoted to public service. In 1948 Arkansas Louisiana Gas Company filed with the Commission a report showing that the amount at which the properties (including intangibles) were carried as of January 1, 1940 exceeded the original cost of such properties by \$11,949,298.65, and it proposed that this amount be disposed of as follows:

By a charge to reserves for depletion, depreciation and retirements	\$ 6,479,288.31
By a charge to earned surplus	1,112,051.60
By equal annual charges to amortization expense over a period of fifteen years beginning with the year 1949; or at the option of the Company by a charge at any time of all or any part of the amount of \$4,386,299 to earned surplus	4,386,299.00
By a credit to contributions for extensions — not refundable	(28,340.26)
	<u>\$11,949,298.65</u>

Pending review and approval by the Commission of the findings of Arkansas Louisiana Gas Company and its proposal, no adjustments have been made in the accounts in respect thereof nor has any effect been given to the as yet undetermined adjustments that may arise subsequent to January 1, 1940 either as a result of the restatement of property accounts at that date or as a result of the determination of original cost of gas plant aggregating \$877,450.33 acquired from outsiders in 1943.

Note 2:

Customers' accounts receivable include \$117,175.19 in respect of unbilled revenue which was based on estimates made in 1928 and 1929 as adjusted for properties acquired in 1943. Unbilled revenue at December 31, 1948 is estimated to be approximately \$866,000.

Note 3:

Inventories of crude and refined oils are stated at cost, under the last-in first-out method applied on an annual basis, which is lower than aggregate market.

The cost of crude oil comprises purchases at cost and production at average gravity posted prices, plus gathering and transportation charges at tariff rates. The amount of intercompany profit included in crude and refined oils cannot be readily ascertained, but is not believed to be material.

Note 4:

The notes payable to banks maturing after one year are as follows:

2¼% note due by Arkansas Louisiana Gas Company, a consolidated subsidiary, payable in fifteen semi-annual instalments of \$625,000 each beginning April 15, 1950 and ending April 15, 1957 (instalments due in 1949 aggregating \$1,125,000 are included in current liabilities)	\$ 9,375,000
2½% notes due by Arkansas Louisiana Gas Company on October 15, 1957	2,500,000
	<u>\$11,875,000</u>
2½% notes due by Arkansas Fuel Oil Company, a consolidated subsidiary, of which \$999,996 per year matures in 1950-51 and \$583,359 in 1952 (notes due in 1949 aggregating \$999,996 are included in current liabilities)	2,583,351
	<u>\$14,458,351</u>

Under the terms of its loan agreement, certain restrictions are imposed on Arkansas Louisiana Gas Company, including restrictions on the payment of dividends. Dividends paid by the company must not exceed earned surplus accumulated subsequent to December 31, 1946 plus \$1,500,000 and less principal payments (if any) on the debenture issue of \$6,500,000 (owned by Arkansas Natural Gas Corporation and therefore eliminated in consolidation) and must not reduce current assets of the company to less than 125% of its current liabilities. The agreement provides, in effect, that in calculating the foregoing restrictions (1) charges for depreciation and depletion subsequent to December 31, 1946 shall at least equal the matured principal instalments of the above-mentioned notes, (2) current assets shall be after deducting therefrom the provision for Federal income taxes, and (3) current liabilities shall be after deducting therefrom the amount of customers' deposits and the above-mentioned provision for Federal income taxes. The restrictions thus imposed on consolidated earned surplus at December 31, 1948 aggregate \$5,607,362.93, which amount includes \$1,815,091.61 due to the restriction imposed by the current assets to current liabilities ratio provision.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1948

Under the terms of agreement in connection with the notes due by Arkansas Fuel Oil Company, certain restrictions are imposed on that company, including restrictions in respect of payment of dividends and on any amounts due any parent company if such payments reduce cash balances or net current assets below stipulated amounts. Payments made during the year complied with these restrictions.

Note 5:

The depreciation provided by the Companies is based on current studies made by independent engineers and represents, substantially, the amount considered necessary by them to write off the undepreciated balance of the property, net of estimated salvage, during its remaining useful life, including allowances for retirements resulting from replacements necessary during that period.

The provision for depletion of producing oil and gas properties is determined on an overall basis by dividing the recoverable oil and gas reserves estimated by engineers into the undepleted cost of the producing properties, net of estimated salvage, plus the estimated future development costs of the said reserves. It is believed that the amounts so provided are not materially different from the aggregate amounts that would result from computations made on a lease basis.

No provision has been made to write off the excess cost of investments in securities over the equity in net assets at date of acquisition, which amount is included in capital assets.

Note 6:

Under the terms of agreements covering certain properties occupied and used by Arkansas Fuel Oil Company, a consolidated subsidiary, under lease with purchase options, that Company has agreed to pay amounts designated as rentals equivalent to the instalments (including interest) due on bank loans made to the lessor, which loans are secured by mortgages on the leased properties, and the payment of which is guaranteed by Arkansas Fuel Oil Company. In effect, Arkansas Fuel Oil Company may acquire the leased properties at the expiration dates of the leases, mainly in 1957, without making any further payment therefor, or it may do so at any time upon payment of the then outstanding balances of said bank loans, which aggregated \$1,275,660.44 at December 31, 1948.

Note 7:

Under the Public Utility Holding Company Act of 1935, Section 11(b) (1), an order was issued by the Securities and Exchange Commission on May 5, 1944 requiring Arkansas Natural Gas Corporation to sever its corporate relationship with all companies within the holding company system not directly engaged in the business of production, transmission, and distribution of natural gas. Arkansas Natural Gas Corporation concluded that it would be preferable to meet the requirements of the Act by the retention of non-utility properties and disposition of utility properties. Accordingly, in 1948 an appropriate application was filed by Arkansas Natural Gas Corporation and Arkansas Louisiana Gas Company, a consolidated subsidiary, with the Securities and Exchange Commission setting forth a proposed plan for the disposal of the gas distribution properties of Arkansas Louisiana Gas Company. Testimony as to this application has been taken by the Commission.

In February 1949 the above proceeding was consolidated by order of the Commission with the proceeding then instituted by the Commission against Arkansas Natural Gas Corporation, its subsidiaries, and its parent, Cities Service Company, under the provisions of Section 11(b) (2) of the Public Utility Holding Company Act of 1935. The new proceeding, among other things, is for the purpose of determining whether the corporate structure of Arkansas Natural Gas Corporation unduly complicates the structure of the holding company system, of which it is a part, or unfairly or inequitably distributes voting power among its security holders, and, if so, what action should be required to eliminate such complexities and to fairly distribute such voting power, and whether it is appropriate to approve the disposal plan above mentioned.

The effect of the above on the corporate structure of Arkansas Natural Gas Corporation and its subsidiaries is at present unknown.

ARKANSAS NATURAL

BALANCE

At December

ASSETS

INVESTMENTS:

Securities of subsidiary companies		\$ 59,907,660.11
Advances to subsidiary company		200,000.00
Investment in 50% owned company, at cost:		
Lisbon Gasoline Company, Inc., capital stock (approximate net assets applicable thereto per that company's unaudited financial state- ments—\$473,000)		169,039.00
Investments in other securities, at nominal value		7.00
Miscellaneous investments—plant, etc., at book value	\$ 310,325.49	
Less: Reserve for depreciation and retirements	194,799.07	115,526.42
		<u>60,392,232.53</u>

CURRENT ASSETS:

Cash in banks and on hand	1,316,800.89	
Current account with subsidiary company	222.22	
Interest receivable on Arkansas Louisiana Gas Company Debenture	92,083.34	1,409,106.45

OTHER ASSETS:

Special cash deposit	425.00	
Notes and accounts receivable (less reserve \$171.63)	250.00	675.00

DEFERRED CHARGES		1,045.30
		<u>\$61,803,059.28</u>

See pages Ten and Eleven for Notes to financial statements.

GAS CORPORATION

SHEET

31, 1948

CAPITAL AND LIABILITIES

CAPITAL STOCK:

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,924 shares, less in treasury 3,162

shares; outstanding 2,187,762 shares \$ 21,877,620.00

Common—no par value:

Authorized 4,084,225 shares; issued 4,084,063 shares, less in treasury 3,277

shares; outstanding 4,080,786 shares—stated at 4,080,786.00

Class A Common (non-voting)—no par value:

Authorized 4,000,000 shares; issued 3,522,521 $\frac{1}{4}$ shares, less in treasury 250

shares; outstanding 3,522,271 $\frac{1}{4}$ shares—stated at 3,522,271.25

Reserve to provide for exchange of stock of predecessor company

(156 shares of preferred stock at \$10 per share and 162 shares of common stock at \$1 per share)

1,722.00

29,482,399.25

CURRENT LIABILITIES:

Accounts payable \$ 25,105.34

Current account with subsidiary company 16.01

Current account with mutual service company 5,545.30

Accrued taxes and other charges 54,314.03

Provision for Federal income taxes 375,924.37

460,905.05

SURPLUS:

Capital surplus 22,406,832.28

Earned surplus of merged companies at date of merger 3,955,385.07

Earned surplus 5,497,537.63

31,859,754.98

\$ 61,803,059.28

ARKANSAS NATURAL GAS CORPORATION

STATEMENTS OF INCOME AND SURPLUS

For the Year ended December 31, 1948

STATEMENT OF INCOME

GROSS INCOME:

Interest on Arkansas Louisiana Gas Company Debenture	\$ 276,250.00	
Interest on indebtedness of subsidiary company	8,000.00	
Other interest	693.00	
Dividends from subsidiary companies	4,391,018.45	
Dividends—other	195,000.00	
Pipeline rental from subsidiary company	66,000.00	
Miscellaneous	453.46	\$ 4,937,414.91

EXPENSES:

General and administrative expenses, etc.	121,490.49	
Provision for depreciation and retirements of plant	16,577.65	
Taxes (other than income taxes)	32,773.24	
Rents	1,267.45	
Interest	5.28	
Miscellaneous income deductions	757.00	172,871.11
		<u>4,764,543.80</u>

PROVISION FOR INCOME TAXES:

Federal income taxes (proportion of consolidated income taxes)	331,244.00	
State income taxes	650.48	331,894.48

NET INCOME		<u>\$ 4,432,649.32</u>
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STATEMENT OF SURPLUS

	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1947	\$22,406,832.28	\$3,955,385.07	\$5,418,735.21
Add: Net income for the year ended December 31, 1948	—	—	4,432,649.32
	<u>22,406,832.28</u>	<u>3,955,385.07</u>	<u>9,851,384.53</u>
Less: Dividends paid:			
On preferred stock—\$.60 per share	—	—	1,312,638.00
On common stock—\$.40 per share	—	—	1,632,300.40
On class A common stock—\$.40 per share	—	—	1,408,908.50
	<u>—</u>	<u>—</u>	<u>4,353,846.90</u>
BALANCE AT DECEMBER 31, 1948	<u>\$22,406,832.28</u>	<u>\$3,955,385.07</u>	<u>\$5,497,537.63</u>

See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION

Incorporated under the Laws of the State of Delaware, U. S. A.

Shreveport, Louisiana

BOARD OF DIRECTORS

PAUL G. BENEDUM	PITTSBURGH, PA.
ADDISON B. DALLY, JR.	PITTSBURGH, PA.
HARRY D. HANCOCK	NEW YORK, N. Y.
EDWARD B. KELLEY	PITTSBURGH, PA.
JOHN M. McMILLIN	NEW YORK, N. Y.
HENRY L. O'BRIEN	NEW YORK, N. Y.
GEORGE H. SHAW	NEW YORK, N. Y.
TEMPLE W. TUTWILER	BIRMINGHAM, ALA.
HENRY C. WALKER, JR.	SHREVEPORT, LA.
CHESTER L. WALLACE	PITTSBURGH, PA.
BURL S. WATSON	NEW YORK, N. Y.
ALVIN H. WEYLAND	SHREVEPORT, LA.
FRANK A. WILLISON	PITTSBURGH, PA.

OFFICERS

HENRY C. WALKER, JR.	President
ALVIN H. WEYLAND	Vice-President & General Manager
H. THEO GOSS	Vice-President
THOMAS J. HEARD	Secretary
MORTIMER J. LASSEIGNE	Treasurer
JOSEPH T. GRIFFITH	Assistant Secretary
J. CARROLL HAMILTON	Assistant Secretary
EDGAR E. McWHINEY	Assistant Secretary
ERLE G. CHRISTIAN	Assistant Treasurer
HAROLD G. WALTERS	Assistant Treasurer

AUDITORS

ARTHUR YOUNG & COMPANY

Arkansas Natural Gas Corporation

Annual Report
to Stockholders

Year Ended
December 31, 1947

The annual meeting of stockholders of the Corporation will be held on October 21, 1948, at Dover, Delaware. It is expected that proxies for that meeting will be requested by the Management and that the notice of meeting, proxy statement and form of proxy will be mailed to stockholders on or before September 30, 1948. This Annual Report containing financial statements is not and must not be considered as proxy soliciting material or as a report or document filed pursuant to the Securities Exchange Act or any rule or regulation thereunder.

This Annual Report is submitted for the general information of the stockholders of the Corporation and is not intended to induce, or for use in connection with, any sale or purchase of securities.

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ARKANSAS NATURAL GAS CORPORATION

Annual Report

To the Stockholders:

The Annual Report of your Corporation for the calendar year 1947 is submitted herewith. Included are financial statements of the Corporation and consolidated financial statements of the Corporation and Subsidiaries, as reported upon by Messrs. Arthur Young & Company, Accountants and Auditors.

Earnings: Consolidated Gross Operating Revenue for 1947 was \$86,258,317, as compared with \$62,702,956 for 1946. Consolidated Net Income for 1947 was \$7,377,373, as compared with \$4,286,799 for 1946.

The Gross Income of the Corporation for 1947 was \$1,865,148, as compared with \$1,805,065 for 1946 and the Net Income for 1947 was \$1,556,855, as compared with \$1,509,925 for 1946.

Financial: Consolidated Current Assets at December 31, 1947 were \$30,166,671 including \$15,443,971 of cash, as compared with Consolidated Current Assets of \$22,125,324, including \$10,280,731 of cash at December 31, 1946. Consolidated Current Liabilities were \$14,309,183 at December 31, 1947, as compared with Consolidated Current Liabilities of \$10,744,408 at December 31, 1946.

Consolidated Long Term Debt at the end of 1947 was \$14,096,097, as compared with \$14,327,767 at the close of the previous year.

Arkansas Louisiana Gas Company retired all of its first mortgage bonds which were outstanding in the principal amount of \$9,725,000 at the end of 1946. Of this amount, \$1,025,000 was paid on account of serial maturities during the year and \$8,700,000 was redeemed in October out of the proceeds of a bank loan of \$11,500,000 on a 2 $\frac{1}{4}$ % promissory note, payable over a period from 1948 to 1957. This refinancing also provided approximately \$2,625,000 for construction expenditures and effected a reduction in the rate of interest on the company's long term indebtedness. To provide additional funds for its construction program, the company also obtained a bank credit of \$2,500,000 to be drawn upon from time to time to October 15, 1948 on 2 $\frac{1}{2}$ % notes to mature on October 15, 1957. No portion of this credit was used to the end of 1947.

Arkansas Fuel Oil Company reduced its long term debt from \$4,600,718 to \$3,596,097 by payment of serial maturities during the year, and in November all of its 6% preferred stock outstanding in the amount of \$89,450 was called for redemption.

Orange State Oil Company paid the remaining amount of \$2,049 of its long term debt during the year.

Subsidiary Companies' Operations: Crude oil production in 1947 amounted to 5,402,152 net barrels compared with 5,285,381 net barrels in 1946. The average price per barrel received during 1947 was \$1.97 compared with an average price of \$1.43 in 1946.

Refined petroleum products sold during the year amounted to 382,814,481 gallons compared with 318,339,696 gallons sold in 1946.

The oil pipe lines transported 8,269,694 barrels of oil in 1947 compared with 9,606,281 barrels in 1946.

The production of natural gasoline plant products during the year amounted to 89,301,188 gallons compared with 67,513,660 gallons in 1946 and the average sales price for these products was \$.0562 per gallon compared with \$.0371 per gallon in 1946.

Natural gas sales amounted to 112.2 billion cubic feet in 1947 as compared with 83.5 billion cubic feet in 1946. The number of customers at the end of 1947 was 153,910 as compared with 142,485 at the close of the previous year.

Construction: Combined total construction expenditures amounted to \$7,440,000 for the year and included \$1,168,000 for oil well drilling and equipment; \$520,000 for drilling gas wells; \$2,676,000 for natural gas pipe lines, compressor stations and distribution facilities; \$429,000 for oil and gas leases; \$1,265,000 for natural gasoline plants and plant equipment; \$913,000 for marketing facilities; \$39,000 for refinery lube compounding and blending equipment; and \$430,000 for transportation equipment and for numerous small projects and equipment.

Arkansas Fuel Oil Company drilled and completed two oil wells in Arkansas, nineteen oil wells in Louisiana including one part interest well, eleven oil wells including two part interest wells and one part interest gas well in Texas, and participated in the drilling of nine additional oil wells in Texas in which the company owns a substantial interest. The processing facilities of the Panola County, Texas gasoline plant were completed and the plant placed in operation during July. Equipment for separating butane and propane is in process of installation and equipment and materials have been ordered that will increase the daily processing capacity of the plant to 100 million cubic feet of gas. Other additions and improvements were made to company gasoline plants during the year.

Arkansas Louisiana Gas Company drilled and completed one gas well in the Jefferson, Texas field, five wells in the Carthage, Texas field including two part interest wells, acquired substantial interest in one well located in the same field and one in the Logansport, Louisiana field, and re-completed five wells in new horizons of which two were dually completed in the Jefferson, Texas field, two re-completed in the Driscoll, Louisiana field and one in the Sligo, Louisiana field. The company increased its transmission and field lines 51.58 miles and distribution lines 117.68 miles, including approximately 27 miles of transmission lines to increase capacity into Little Rock, Arkansas and to serve Arkansas Power and Light Company's Lynch Power Plant located near North Little Rock, Arkansas; approximately 24 miles of transmission lines to serve new main line customers, company new production and outside production; and numerous distribution line extensions to serve new real estate subdivisions and new customers.

Public Utility Holding Company Act: As stated in the Annual Report of the Corporation for the year 1946, the order of the Securities and Exchange Commission of May 5, 1944, requires the Corporation to divest itself of its interest in various nonutility properties. After careful consideration, your management has reached the conclusion that because the nonutility properties relatively constitute the major portion of the total system assets, it is preferable to meet the requirements of Section 11 (b) (1) of the Public Utility Holding Company Act by the retention of the nonutility properties and disposition of the utility properties. In reaching this conclusion the management considered the relative advantages of the disposition of certain nonutility properties with utility properties, but is convinced that the retention of the nonutility properties is to the best interest of the Corporation's security holders. Your Board of Directors has authorized and directed the immediate filing of appropriate applications with the Securities and Exchange Commission relating to the disposition of the Corporation's interest in its utility properties.

Your Board wishes to express its grateful acknowledgment and appreciation of the loyalty and co-operation of the employees of the Corporation and its subsidiaries.

Respectfully submitted,

BOARD OF DIRECTORS

By H. C. WALKER, JR.

President.

March 31, 1948

ARTHUR YOUNG & COMPANY

Accountants and Auditors

1 Cedar Street

New York 5, N. Y.

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors,
Arkansas Natural Gas Corporation:

We have examined the balance sheet of Arkansas Natural Gas Corporation and the consolidated balance sheet of Arkansas Natural Gas Corporation and subsidiaries at December 31, 1947, and the related statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income and surplus present fairly the position of Arkansas Natural Gas Corporation and of Arkansas Natural Gas Corporation and its subsidiaries at December 31, 1947, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in valuation of refined oils as explained in Note 3 to financial statements, which change we approve.

ARTHUR YOUNG & COMPANY

New York, N. Y.
February 21, 1948.

ARKANSAS NATURAL GAS CORP.

CONSOLIDATED

At December 31, 1967

ASSETS

CAPITAL ASSETS:

Leaseholds, oil and gas producing properties, storage facilities, pipelines, plants, service stations, distribution system, etc., including intangibles (amount undetermined)—at book value (Note 1)	\$114,197,889.11	
Less: Reserves for depletion, depreciation, and retirements	44,717,623.46	\$ 69,480,265.65
Excess of investments in securities of consolidated subsidiary companies over equity in net assets thereof at dates of acquisition		13,012,302.93
Investments:		
In 50% owned company, at cost—		
Lisbon Gasoline Company, Inc., capital stock (approximate net assets applicable thereto per that company's unaudited financial statements—\$282,000)	169,039.00	
In capital stocks of mutual service companies, at cost	65,000.00	
Miscellaneous investments, at or below cost	137,776.50	371,815.50
		<u>82,864,384.08</u>

CURRENT ASSETS:

Cash in banks and on hand	15,443,971.36	
U. S. Treasury Tax Savings Notes, Series C, at cost	785,000.00	
Customers' accounts receivable, including unbilled gas revenue, less reserve \$469,780.32 (Note 2)	4,674,674.22	
Merchandise accounts receivable, less deferred carrying charges \$2,387.41 and reserve \$4,488.60	49,355.50	
Due from agencies of U. S. Government	201,036.71	
Current accounts with affiliated companies	102,198.23	
Miscellaneous accounts and notes receivable, less reserve \$10,000.00	713,910.20	
Crude oil, at cost (Note 3)	499,277.44	
Refined oil, at cost (Note 3)	3,799,824.79	
Accessories and merchandise for resale, at or below cost	942,860.71	
Materials (including construction materials) and supplies, at or below average cost	2,580,635.31	
Prepaid insurance, rentals, and other expenses	373,926.20	30,166,670.67

OTHER ASSETS:

Special cash deposits	23,117.69	
Accounts and notes receivable—not current, less reserve \$117,268.51	39,721.46	
Unliquidated proceeds of leases sold, recoverable solely out of future production	\$92,083.73	
Less: Reserve for unearned income	65,165.06	26,918.67
Advances to personnel	500.00	90,257.82

DEFERRED CHARGES:

Unamortized debt expense	15,530.32	
Estimated salvage recoverable from abandoned refinery	296,913.07	
Other deferred charges and miscellaneous unadjusted debits	103,426.46	415,869.85

\$113,537,182.42

See pages Ten and Eleven for Notes to financial statements.

ATION AND SUBSIDIARY COMPANIES

BALANCE SHEET

31, 1947

CAPITAL AND LIABILITIES

CAPITAL STOCK OF ARKANSAS NATURAL GAS CORPORATION:

Preferred 6% Cumulative—\$10 par value:		
Authorized 2,193,000 shares; issued 2,190,854 shares, less in treasury 3,162 shares; outstanding 2,187,692 shares		\$ 21,876,920.00
Common—no par value:		
Authorized 4,084,225 shares; issued 4,083,988 shares, less in treasury 3,277 shares; outstanding 4,080,711 shares—stated at		4,080,711.00
Class A Common (non-voting)—no par value:		
Authorized 4,000,000 shares; issued 3,522,521 $\frac{1}{4}$ shares, less in treasury 250 shares; outstanding 3,522,271 $\frac{1}{4}$ shares—stated at		3,522,271.25
Reserve to provide for exchange of stock of predecessor company (234.49 shares of preferred stock at \$10 per share and 237 shares of common stock at \$1 per share)		2,581.90
		29,482,484.15

LONG TERM DEBT:

Subsidiary companies:		
Notes payable to banks, maturing after one year (Note 4)	\$14,083,347.00	
Purchase money obligations, maturing after one year	12,750.00	14,096,097.00

CURRENT LIABILITIES:

Notes payable:		
Banks (Note 4)	2,280,277.25	
Purchase money obligations	4,625.00	
	2,284,902.25	
Accounts payable	5,010,756.60	
Current accounts with affiliated and mutual service companies	228,408.05	
Accrued interest, taxes and other charges	1,342,028.21	
Customers' deposits	1,306,193.01	
Provision for Federal income taxes (subject to final determination by U. S. Treasury Department)	4,136,895.29	14,309,183.41

OTHER LIABILITIES:

Drilling and lease costs payable out of future production	108,829.87	
Advances for line extensions (including \$1,883,151.96 from agencies of U. S. Government)	2,325,713.58	
Miscellaneous accounts	138,658.77	2,573,202.22

CONTRIBUTIONS FOR EXTENSIONS—NOT REFUNDABLE 426,472.89

SURPLUS:

Capital surplus	22,406,832.28	
Earned surplus of merged companies at date of merger	3,955,385.07	
Earned surplus (Notes 4 and 5)	26,287,525.40	52,649,742.75
		\$113,537,182.42

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME

For the Year Ended December 31, 1947

GROSS OPERATING REVENUE (after deducting allowances):

Crude and refined oils and accessories	\$ 70,975,579.66	
Natural gas	<u>15,282,737.14</u>	\$86,258,316.80

OPERATING AND OTHER EXPENSES:

Cost of sales, operating, selling, general, and administrative expenses (including operations from merchandise sales and job work)	63,543,103.06	
Maintenance and repairs	3,229,171.08	
Provision for depletion, depreciation, and retirements (Note 6)	4,657,223.36	
Cancelled undeveloped lease and dry hole expenses	627,789.99	
Rents and royalties (exclusive of oil royalties)	711,450.87	
Taxes (other than income taxes)	<u>2,344,438.76</u>	<u>75,113,177.12</u>

NET OPERATING REVENUE		11,145,139.68
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OTHER INCOME:

Interest and dividends	158,334.16	
Cash discounts	112,935.64	
Miscellaneous	<u>89,299.94</u>	<u>360,569.74</u>
		11,505,709.42

INTEREST AND OTHER CHARGES:

Interest on first mortgage bonds of Arkansas Louisiana Gas Company redeemed during the year	259,821.04	
Interest on notes and accounts payable	238,766.09	
Interest on customers' deposits	69,785.71	
Amortization of debt expense	21,577.63	
Miscellaneous income deductions	42,733.57	
Special charge for portion of call premium and unamortized debt expense on redeemed first mortgage bonds of Arkansas Louisiana Gas Company equivalent to reduction in Federal income taxes attributable thereto (remainder charged to earned surplus)	79,955.00	
Minority interests:		
Dividends paid on Arkansas Fuel Oil Company Preferred Stock	<u>8,587.50</u>	<u>721,226.54</u>
		10,784,482.88

PROVISION FOR INCOME TAXES:

Federal income taxes	3,238,121.34	
State income taxes	<u>168,988.24</u>	<u>3,407,109.58</u>

NET INCOME		<u>\$ 7,377,373.30</u>
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See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES
STATEMENT OF CONSOLIDATED SURPLUS
For the Year Ended December 31, 1947

	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1946	\$22,406,832.28	\$3,955,385.07	\$19,439,636.47
Add:			
Net income for the year ended December 31, 1947	—	—	7,377,373.30
Excess accruals for Federal and State income taxes for prior years	—	—	854,313.67
Portion of rentals paid and capitalized on properties leased with options to purchase—applicable to prior years	—	—	62,185.76
	<u>22,406,832.28</u>	<u>3,955,385.07</u>	<u>27,733,509.20</u>
Deduct:			
Premium on preferred stock of Arkansas Fuel Oil Company called for redemption on November 1, 1947	—	—	4,777.50
Call premium (\$175,465.00) and unamortized debt expense charged off upon redemption of First Mortgage Bonds of Arkansas Louisi- ana Gas Company, less portion (\$79,955.00) thereof charged to income being equivalent to reduction in Federal income taxes resulting therefrom	—	—	128,591.10
Dividends paid on preferred stock—\$.60 per share	—	—	1,312,615.20
	<u>—</u>	<u>—</u>	<u>1,445,983.80</u>
BALANCE AT DECEMBER 31, 1947 (Notes 4 and 5)	<u>\$22,406,832.28</u>	<u>\$3,955,385.07</u>	<u>\$26,287,525.40</u>

See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1947

Note 1:

The Federal Power Commission has prescribed a uniform system of accounts for natural gas companies under its jurisdiction, effective January 1, 1940, which requires a study and restatement of gas plant of Arkansas Louisiana Gas Company, a consolidated subsidiary, to be made and completed by June 30, 1948. Until the necessary studies are completed it is not known to what extent the accounts will be affected.

Note 2:

Customers' accounts receivable include \$117,175.19 in respect of unbilled revenue which was based on estimates made in 1928 and 1929 as adjusted for properties acquired in 1943. Unbilled revenue at December 31, 1947 is estimated to be approximately \$840,000.

Note 3:

Inventories of crude and refined oils are stated at cost, under the last-in, first-out method applied on an annual basis, which is lower than aggregate market. The method used for refined oils is different from that of the previous year when refined oils were stated on an average monthly cost basis. As a result of this change in methods, the inventories at December 31, 1947 are stated at approximately \$1,190,000 less than they would have been on the basis formerly used and net income for the year 1947 after income taxes is decreased by approximately \$700,000.

The cost of crude oil comprises purchases at cost and production at average gravity posted prices, plus gathering and transportation charges at tariff rates. The amount of intercompany profit included in crude and refined oils cannot be readily ascertained.

Note 4:

The notes payable to banks maturing after one year are as follows:

2 1/4% note due by Arkansas Louisiana Gas Company, a consolidated subsidiary, payable in instalments as follows: \$500,000 on April 15, 1949 and sixteen instalments of \$625,000 each on April 15 and October 15 of each year beginning October 15, 1949 and ending April 15, 1957 (instalments due in 1948 aggregating \$1,000,000 are included in current liabilities)	\$10,500,000
2 1/2% notes due by Arkansas Fuel Oil Company, a consolidated subsidiary, of which \$999,996 per year matures in 1949-51 and \$583,359 in 1952 (notes due in 1948 aggregating \$999,996 are included in current liabilities)	3,583,347
	<u>\$14,083,347</u>

Under the terms of its loan agreement, certain restrictions are imposed on Arkansas Louisiana Gas Company, including restrictions on the payment of dividends. Dividends paid by the company must not exceed earned surplus accumulated subsequent to December 31, 1946 plus \$1,500,000 and less principal payments (if any) on the debenture issue of \$6,500,000 (owned by Arkansas Natural Gas Corporation and therefore eliminated in consolidation) and must not reduce current assets of the company to less than 125% of its current liabilities. The agreement provides, in effect, that in calculating the foregoing restrictions (1) charges for depreciation and depletion subsequent to December 31, 1946 shall at least equal the matured principal instalments of the above-mentioned notes, (2) current assets shall be after deducting therefrom the provision for Federal income taxes, and (3) current liabilities shall be after deducting therefrom the amount of customers' deposits and the above-mentioned provision for Federal income taxes. The restrictions thus imposed on consolidated earned surplus at December 31, 1947 aggregate \$4,308,406.89, which amount includes \$516,135.57 due to the restriction imposed by the current assets to current liabilities ratio provision.

Under the terms of agreement in connection with the notes due by Arkansas Fuel Oil Company, certain restrictions are imposed on that company, including restrictions in respect of payment of dividends and on any amounts due any parent company if such payments reduce cash balances or net current assets below stipulated amounts. Payments made during the year complied with these restrictions.

Note 5:

Under the consent decree entered by the U. S. District Court on December 23, 1941, pipeline earnings of Arkansas Pipeline Corporation, a consolidated subsidiary, since January 1, 1942 in excess of 7% of a calculated Interstate Commerce Commission valuation are restricted as to distribution and use. The restrictions thus imposed on consolidated earned surplus at December 31, 1947 aggregate \$90,403.43.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1947

Note 6:

The depreciation provided by the Companies is based on current studies made by independent engineers and represents, substantially, the amount considered necessary by them to write off the undepreciated balance of the property, net of estimated salvage, during its remaining useful life, including allowances for retirements resulting from replacements necessary during that period.

The provision for depletion of producing oil and gas properties is determined on an overall basis by dividing the recoverable oil and gas reserves estimated by engineers into the undepleted cost of the producing properties, net of estimated salvage, plus the estimated future development costs on the said reserves. It is believed that the amounts so provided are not materially different from the aggregate amounts that would result from computations made on a lease basis.

No provision has been made to write off the excess cost of investments in securities over the equity in net assets at date of acquisition, which amount is included in capital assets.

Note 7:

Arkansas Fuel Oil Company, a consolidated subsidiary, has agreed with certain banks which are the holders of notes secured by mortgages upon properties occupied and used by that company under lease with purchase options, that in event of default in payment of the notes and in certain other events of default, it will pay sums equal to the then outstanding balances of the notes against assignment to the Company, without recourse, of the notes and the security therefor. The amount involved as of December 31, 1947 was \$1,382,760.26.

Note 8:

Under the Public Utility Holding Company Act of 1935, Section 11 (B) (1), an order was issued by the Securities and Exchange Commission on May 5, 1944, requiring the Arkansas Natural Gas Corporation to sever its corporate relationship with all companies within the holding company system not directly engaged in the business of production, transmission, and distribution of natural gas. The Company's petition to set aside or modify this order was denied on March 22, 1946, by the Fifth U. S. Circuit Court of Appeals and the Company's application to the U. S. Supreme Court for a writ of Certiorari to said Fifth U. S. Circuit Court of Appeals was denied on October 14, 1946. The effect of the above on the corporate structure of the Arkansas Natural Gas Corporation and its subsidiaries is at present unknown.

ARKANSAS NATURAL

BALANCE

At December

ASSETS

INVESTMENTS:

Securities of subsidiary companies		\$ 59,907,660.11
Advances to subsidiary company		200,000.00
Investment in 50% owned company, at cost:		
Lisbon Gasoline Company, Inc., capital stock (approximate net assets applicable thereto per that company's unaudited financial state- ments—\$282,000)		169,039.00
Investments in other securities, at nominal value		7.00
Miscellaneous investments—plant, etc., at book value	\$ 310,325.49	
Less: Reserve for depreciation and retirements	178,221.42	132,104.07
		<u>60,408,810.18</u>

CURRENT ASSETS:

Cash in banks and on hand	965,965.01	
U. S. Treasury Tax Savings Notes, Series C, at cost	63,000.00	
Current account with subsidiary company	222.22	
Interest receivable on Arkansas Louisiana Gas Company Debenture	92,083.34	
Other interest receivable	1,348.20	1,122,618.77

OTHER ASSETS:

Miscellaneous special funds	425.00	
Notes and accounts receivable (less reserve \$171.63)	250.00	675.00

DEFERRED CHARGES:

Miscellaneous unadjusted debits		449.71
		<u>\$61,532,553.66</u>

See pages Ten and Eleven for Notes to financial statements.

GAS CORPORATION

HEET

, 1947

CAPITAL AND LIABILITIES

CAPITAL STOCK:

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,854 shares, less in treasury 3,162 shares; outstanding 2,187,692 shares \$ 21,876,920.00

Common—no par value:

Authorized 4,084,225 shares; issued 4,083,988 shares, less in treasury 3,277 shares; outstanding 4,080,711 shares—stated at 4,080,711.00

Class A Common (non-voting)—no par value:

Authorized 4,000,000 shares; issued 3,522,521 $\frac{1}{4}$ shares, less in treasury 250 shares; outstanding 3,522,271 $\frac{1}{4}$ shares—stated at 3,522,271.25

Reserve to provide for exchange of stock of predecessor company

(234.49 shares of preferred stock at \$10 per share and 237 shares of common stock at \$1 per share) 2,581.90

29,482,484.15

CURRENT LIABILITIES:

Accounts payable	\$ 14,317.50	
Current account with subsidiary company	398.37	
Current account with mutual service company	1,949.71	
Accrued taxes and other charges	34,921.87	
Provision for Federal income taxes (subject to final determination by U. S. Treasury Department)	217,529.50	269,116.95

SURPLUS:

Capital surplus	22,406,832.28	
Earned surplus of merged companies at date of merger	3,955,385.07	
Earned surplus	5,418,735.21	31,780,952.56
		<u>\$61,532,553.66</u>

ARKANSAS NATURAL GAS CORPORATION

STATEMENTS OF INCOME AND SURPLUS

For the Year Ended December 31, 1947

STATEMENT OF INCOME

GROSS INCOME:

Interest on Arkansas Louisiana Gas Company Debenture	\$ 276,250.00	
Interest on indebtedness of subsidiary company	8,000.00	
Other interest	743.40	
Dividends from subsidiary companies	1,390,896.60	
Dividends—other	123,000.00	
Pipeline rental from subsidiary company	66,000.00	
Miscellaneous	258.32	\$ 1,865,148.32

EXPENSES:

General and administrative expenses, etc.	77,984.35	
Provision for depreciation and retirements of plant	17,645.57	
Taxes (other than income taxes)	32,812.97	
Rents	1,267.45	
Interest—subsidiary company	1,576.32	
Other interest	2,490.56	133,777.22
		<u>1,731,371.10</u>

PROVISION FOR INCOME TAXES:

Federal income taxes (proportion of consolidated income taxes)	173,541.00	
State income taxes	974.85	174,515.85

NET INCOME		<u>\$ 1,556,855.25</u>
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STATEMENT OF SURPLUS

	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1946	\$22,406,832.28	\$3,955,385.07	\$5,122,897.00
Add: Net income for the year ended December 31, 1947	—	—	1,556,855.25
Excess accruals for Federal income taxes for prior years	—	—	51,598.16
	<u>22,406,832.28</u>	<u>3,955,385.07</u>	<u>6,731,350.41</u>
Less: Dividends paid on preferred stock—\$.60 per share	—	—	1,312,615.20
BALANCE AT DECEMBER 31, 1947	<u>\$22,406,832.28</u>	<u>\$3,955,385.07</u>	<u>\$5,418,735.21</u>

See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION

Incorporated under the Laws of the State of Delaware, U. S. A.

Shreveport, Louisiana

BOARD OF DIRECTORS

PAUL G. BENEDUM	PITTSBURGH, PA.
ADDISON B. DALLY, JR.	PITTSBURGH, PA.
HARRY D. HANCOCK	NEW YORK, N. Y.
EDWARD B. KELLEY	PITTSBURGH, PA.
JOHN M. McMILLIN	NEW YORK, N. Y.
HENRY L. O'BRIEN	NEW YORK, N. Y.
GEORGE H. SHAW	NEW YORK, N. Y.
TEMPLE W. TUTWILER	BIRMINGHAM, ALA.
HENRY C. WALKER, JR.	SHREVEPORT, LA.
CHESTER L. WALLACE	PITTSBURGH, PA.
BURL S. WATSON	NEW YORK, N. Y.
ALVIN H. WEYLAND	SHREVEPORT, LA.
FRANK A. WILLISON	PITTSBURGH, PA.

OFFICERS

HENRY C. WALKER, JR.	President
ALVIN H. WEYLAND	Vice-President & General Manager
H. THEO GOSS	Vice-President
THOMAS J. HEARD	Secretary
MORTIMER J. LASSEIGNE	Treasurer
JOSEPH T. GRIFFITH	Assistant Secretary
J. CARROLL HAMILTON	Assistant Secretary
EDGAR E. McWHINEY	Assistant Secretary
ERLE G. CHRISTIAN	Assistant Treasurer
HAROLD G. WALTERS	Assistant Treasurer

AUDITORS

ARTHUR YOUNG & COMPANY

Arkansas Natural Gas Corporation

Annual Report to Stockholders

Year Ended
December 31, 1946

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NOV 10 1946

UNIVERSITY OF ILLINOIS

The annual meeting of stockholders of the Corporation will be held on October 16, 1947, at Dover, Delaware. It is expected that proxies for that meeting will be requested by the Management and that the notice of meeting, proxy statement and form of proxy will be mailed to stockholders on or before September 25, 1947. This Annual Report containing financial statements is not and must not be considered as proxy soliciting material or as a report or document filed pursuant to the Securities Exchange Act or any rule or regulation thereunder.

This Annual Report is submitted for the general information of the stockholders of the Corporation and is not intended to induce, or for use in connection with, any sale or purchase of securities.

ARKANSAS NATURAL GAS CORPORATION

Annual Report

To the Stockholders:

The Annual Report of your Corporation for the calendar year 1946 is submitted herewith. Included are financial statements of the Corporation and consolidated financial statements of the Corporation and Subsidiaries, as reported upon by Messrs. Arthur Young & Company, Accountants and Auditors.

Earnings: Consolidated Gross Operating Revenue for 1946 was \$62,702,956, as compared with \$56,135,467 for 1945. Consolidated Net Income for 1946 was \$4,286,799, as compared with \$4,396,304 for 1945.

The Gross Income of the Corporation for 1946 was \$1,805,065, as compared with \$3,225,989 for 1945 and the Net Income for 1946 was \$1,509,925, as compared with \$2,940,348 for 1945.

Financial: Consolidated Current Assets at December 31, 1946 were \$22,125,324 including \$10,280,731 of cash, as compared with Consolidated Current Assets of \$20,196,633, including \$9,738,471 of cash at December 31, 1945. Consolidated Current Liabilities were \$10,744,408 at December 31, 1946, as compared with Consolidated Current Liabilities of \$9,186,853 at December 31, 1945.

Consolidated Funded and Other Long Term Debt at the end of 1946 was \$14,327,767, as compared with \$16,444,915 at the close of the previous year.

The funded debt of Arkansas Louisiana Gas Company was reduced from \$10,725,000 to \$9,725,000 during the year.

Arkansas Fuel Oil Company reduced its funded and long term debt from \$5,605,339 to \$4,600,718.

Orange State Oil Company reduced its funded and other long term debt from \$114,576 to \$2,049.

Arkansas Natural Gas Corporation had no funded indebtedness outstanding at December 31, 1946.

Subsidiary Companies' Operations: Crude oil production in 1946 amounted to 5,285,381 net barrels compared with 5,505,102 net barrels in 1945. The average price per barrel received during 1946 was \$1.43 compared with an average price of \$1.24 in 1945.

Refined petroleum products sold during the year amounted to 318,339,696 gallons compared with 467,309,465 gallons sold in 1945.

The oil pipe lines transported 9,606,281 barrels of oil in 1946 compared with 8,738,543 barrels in 1945.

The production of natural gasoline was 23,947,377 gallons and the average sales price for this product during the year was \$.0408 per gallon compared with 24,434,706 gallons produced and an average sales price of \$.0489 per gallon in 1945. The production of other natural gasoline plant products during the year amounted to 43,566,283 gallons compared with 39,083,952 gallons in 1945 and the average sales price for these products was \$.035 per gallon in 1946 compared with \$.034 per gallon in 1945.

Natural gas sales amounted to 83.5 billion cubic feet in 1946 as compared with 88.9 billion cubic feet in 1945. The number of customers at the end of 1946 was 142,485 as compared with 133,175 at the close of the previous year.

Construction: Combined total construction expenditures amounted to \$5,602,000 for the year and included \$510,000 for oil well drilling and equipment; \$898,000 for drilling gas wells; \$1,843,000 for natural gas pipe lines, compressor stations and distribution facilities; \$489,000 for oil and gas leases; \$728,000

for natural gasoline plants and plant equipment; \$853,000 for marketing facilities; \$41,000 for refinery lube compounding and blending equipment; and \$240,000 for transportation equipment and for numerous small projects and equipment.

Arkansas Fuel Oil Company drilled and completed one oil well in Louisiana, six oil wells and one gas well in Texas including one part interest well, and participated in the drilling of fifteen additional oil wells in West Texas in which the company owns a substantial interest. The gasoline plant in Panola County, Texas is being erected as fast as equipment and materials are received, and is expected to be completed and in operation by the latter part of May, 1947. This company constructed one barge terminal in Tennessee for the sale and distribution of refined oil products and installed facilities for the sale of Aviation Gasoline and other Aero products at six airports in Alabama, Georgia, North Carolina, and South Carolina.

Arkansas Louisiana Gas Company drilled and completed nine gas wells in the Carthage, Texas field including three part interest wells, and acquired substantial interest in one well in the Logansport, Louisiana field and seven in the Carthage, Texas field. This company made numerous line extensions to serve new customers and increased its distribution lines 105.43 miles.

Public Utility Holding Company Act: Under the Public Utility Holding Company Act of 1935, Section 11 (b) (1), an order was issued by the Securities and Exchange Commission on May 5, 1944, requiring the Arkansas Natural Gas Corporation to sever its corporate relationship with all companies within the holding company system not directly engaged in the business of production, transmission and distribution of natural gas. The Company's petition to set aside or modify this order was denied on March 22, 1946, by the Fifth U. S. Circuit Court of Appeals and the Company's application to the U. S. Supreme Court for a writ of certiorari to said Fifth U. S. Circuit Court of Appeals was denied on October 14, 1946. The method of compliance with the Order and the requirements of Section 11 (b) (1) and the resulting effect on the corporate structure and operations of Arkansas Natural Gas Corporation and its subsidiaries have not been determined.

With deepest sorrow and sense of loss the death of John Russell Munce is reported. Mr. Munce died September 14, 1946. He became General Manager of Arkansas Natural Gas Company in 1915, and was its President and a Director from 1919 to 1928. He was a Vice-President and a Director of Arkansas Natural Gas Corporation from 1928 to his death.

Your Board wishes to express its grateful acknowledgment and appreciation of the loyalty and co-operation of the employees of the Corporation and its subsidiaries.

Respectfully submitted,

BOARD OF DIRECTORS

By H. C. WALKER, JR.

President.

April 4, 1947.

ARTHUR YOUNG & COMPANY

Accountants and Auditors

1 Cedar Street

New York 5, N. Y.

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors,
Arkansas Natural Gas Corporation:

We have examined the balance sheet of Arkansas Natural Gas Corporation, the consolidated balance sheet of Arkansas Natural Gas Corporation and its subsidiaries at December 31, 1946 and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheets and statements of income and surplus present fairly the position of Arkansas Natural Gas Corporation and the position of Arkansas Natural Gas Corporation and its subsidiaries at December 31, 1946, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.
February 21, 1947.

ARKANSAS NATURAL GAS CORPORATION

CONSOLIDATED

At December 31, 1964

ASSETS

CAPITAL ASSETS:

Leaseholds, oil and gas producing properties, storage facilities, pipe lines, plants, service stations, distribution system, etc., including intangibles (amount undetermined)—at book value (Note 1)	\$108,560,844.88	
Less: Reserves for depletion, depreciation and retirements	41,516,588.45	\$ 67,044,256.43
Excess of investment in securities of subsidiary companies herein consolidated over equity in net assets thereof at dates of acquisition		13,012,302.93
Investments:		
In 50% owned company, at cost—		
Lisbon Gasoline Company, Inc., capital stock (approximate net worth applicable thereto per that company's unaudited financial statements—\$181,940.07)	169,039.00	
In capital stocks of mutual service companies, at cost	65,000.00	
Miscellaneous investments, at or below cost	137,776.50	
Cash surrender value of life insurance policies	42,599.90	414,415.40
		<u>80,470,974.76</u>

CURRENT ASSETS:

Cash in banks and on hand	10,280,730.55	
U. S. Treasury Tax Savings Notes, Series C, at cost	785,000.00	
Customers' accounts receivable, including unbilled gas revenue, less reserve \$480,977.71	3,087,557.88	
Merchandise accounts receivable, less deferred carrying charges \$1,209.77 and reserve \$1,485.87	28,690.91	
Due from agencies of U. S. Government	195,999.83	
Current accounts with affiliated companies	70,975.34	
Miscellaneous accounts and notes receivable, less reserve \$10,000.00	850,608.91	
Crude and refined oils, at cost (Note 2)	4,011,373.79	
Accessories and merchandise for resale, at or below cost	409,715.04	
Materials (including construction materials) and supplies, at or below average cost	1,999,629.84	
Prepaid insurance, rentals and other expenses	405,041.64	22,125,323.73

OTHER ASSETS:

Special cash deposits	71,390.79	
Accounts and notes receivable—not current, less reserve \$98,292.72	81,651.01	
Unliquidated proceeds of leases sold, recoverable solely out of future production, less reserve \$37,000.00	\$83,452.28	
Less: Reserve for unearned income	71,177.12	12,275.16
Advances to personnel	625.00	165,941.96

DEFERRED CHARGES:

Unamortized debt expense	47,052.64	
Estimated salvage recoverable from abandoned refinery	440,953.90	
Other deferred charges and miscellaneous unadjusted debits	95,220.05	583,226.59
		<u>\$103,345,467.04</u>

See pages Eight, Ten and Eleven for Schedules and Notes to financial statements.

ATION AND SUBSIDIARY COMPANIES

BALANCE SHEET

er 31, 1946

CAPITAL AND LIABILITIES

CAPITAL STOCK OF ARKANSAS NATURAL GAS CORPORATION, per schedule attached:

Preferred stock	\$ 21,876,920.00
Common stock	4,080,711.00
Class A Common stock (non-voting)	3,522,271.25
Reserve to provide for exchange of stock of predecessor company	2,581.90

29,482,484.15

MINORITY INTEREST IN SUBSIDIARY:

Arkansas Fuel Oil Company—

Preferred 6% cumulative stock—8,920 shares of a par value of \$10 per share	89,200.00
---	-----------

FUNDED AND OTHER LONG TERM DEBT:

Subsidiary companies, per schedule attached—

First mortgage bonds (\$1,025,000.00 due in 1947) (Note 3)	\$ 9,725,000.00
Mortgage notes, maturing after one year	19,424.35
Notes payable to banks, maturing after one year (Note 4)	4,583,343.00

14,327,767.35

LIABILITY TO STOCKHOLDERS OF LOUISIANA OIL REFINING CORPORATION, payable in preferred stock or cash of Arkansas Fuel Oil Company

24,907.36

CURRENT LIABILITIES (exclusive of \$1,025,000.00 for 1947 requirements in respect of funded debt):

Notes payable:

Banks (Note 4)	1,046,777.25
Purchase money obligations	5,151.40

1,051,928.65

Accounts payable	3,831,038.42
Current accounts with affiliated and mutual service companies	86,697.37
Accrued interest on funded and other long term debt	104,139.26
Accrued interest, taxes and other charges	1,090,046.99
Customers' deposits	1,188,435.82
Provision for Federal income taxes (subject to final determination by U. S. Treasury Department)	3,392,121.12

10,744,407.63

OTHER LIABILITIES:

Drilling and lease costs payable out of future production	122,882.19
Advances for line extensions (including \$2,125,710.85 from agencies of U. S. Government)	2,333,641.54
Miscellaneous accounts	34,034.21

2,490,557.94

CONTRIBUTIONS FOR EXTENSIONS—NOT REFUNDABLE

384,288.79

SURPLUS:

Capital surplus	22,406,832.28
Earned surplus of merged companies at date of merger	3,955,385.07
Earned surplus (Notes 3, 4 and 5)	19,439,636.47

45,801,853.82

\$103,345,467.04

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

SCHEDULES TO CONSOLIDATED BALANCE SHEET

At December 31, 1946

Capital Stock of Arkansas Natural Gas Corporation

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,854 shares, less in treasury 3,162 shares; outstanding 2,187,692 shares	\$ 21,876,920.00
---	------------------

Common—no par value:

Authorized 4,084,225 shares; issued 4,083,988 shares, less in treasury 3,277 shares; outstanding 4,080,711 shares—stated at	4,080,711.00
---	--------------

Class A Common (non-voting)—no par value:

Authorized 4,000,000 shares; issued 3,522,521 ¹ / ₄ shares, less in treasury 250 shares; outstanding 3,522,271 ¹ / ₄ shares—stated at	3,522,271.25
---	--------------

Reserve to provide for exchange of stock of predecessor company

(234.49 shares of preferred stock at \$10.00 per share and 237 shares of common stock at \$1.00 per share)	2,581.90
--	----------

\$ 29,482,484.15

Funded and Other Long Term Debt of Subsidiary Companies

Arkansas Louisiana Gas Company:

First Mortgage Bonds (Note 3)—

3 ¹ / ₂ % Series B, due 1947-1954 (\$900,000.00 due in 1947)	\$ 8,100,000.00	
2 ¹ / ₂ % Series C, due 1947	125,000.00	
3 ¹ / ₄ % Series D, due 1948-1953	1,500,000.00	\$ 9,725,000.00

Arkansas Fuel Oil Company:

Mortgage Notes, maturing after one year	17,375.00	
Notes Payable to Banks, maturing after one year (Note 4)	4,583,343.00	4,600,718.00

Orange State Oil Company:

Mortgage Notes, maturing after one year	2,049.35	
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\$ 14,327,767.35

See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME

For the Year Ended December 31, 1946

GROSS OPERATING REVENUE (after deducting allowances):			
Crude and refined oils and accessories	\$ 49,936,996.72		
Natural gas	12,765,958.80		\$ 62,702,955.52
OPERATING AND OTHER EXPENSES:			
Cost of sales, operating, selling, general and administrative expenses (including operations from merchandise sales and job work)	44,984,621.64		
Maintenance and repairs	2,658,821.02		
Provision for depletion, depreciation and retirements (Note 6)	4,503,710.29		
Cancelled undeveloped lease and dry hole expenses	1,138,246.00		
Rents and royalties (exclusive of oil royalties)	791,315.08		
Taxes (other than income taxes)	1,995,221.74		56,071,935.77
NET OPERATING REVENUE			6,631,019.75
OTHER INCOME:			
Carrying charges collected on merchandise installment sales	1,318.28		
Interest	27,999.33		
Dividends	64,796.80		
Profit on leases sold	4,471.00		
Cash discounts	83,265.51		
Miscellaneous	90,817.04		272,667.96
			6,903,687.71
INTEREST AND OTHER CHARGES:			
Interest on funded debt (including purchase money obligations)	359,678.51		
Other interest	248,261.23		
Amortization of debt expense	11,694.56		
Miscellaneous income deductions	47,251.54		
Proportion of net income of subsidiary applicable to minority interests— Dividends paid on Arkansas Fuel Oil Company Preferred Stock	5,379.00		672,264.84
			6,231,422.87
PROVISION FOR INCOME TAXES:			
Federal income taxes	1,800,857.02		
State income taxes	143,766.82		1,944,623.84
NET INCOME			\$ 4,286,799.03

STATEMENT OF CONSOLIDATED SURPLUS

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1945	\$42,591,520.02	\$22,406,832.28	\$3,955,385.07	\$16,229,302.67
ADD: Net income for the year ended December 31, 1946	4,286,799.03	—	—	4,286,799.03
Portion of rentals paid and capitalized on properties leased with options to purchase—applicable to prior years	348,617.61	—	—	348,617.61
	47,226,936.66	22,406,832.28	3,955,385.07	20,864,719.31
Deduct: Outside partnership interest in net earnings from operation of jointly owned leases—applicable to prior years	113,981.11	—	—	113,981.11
Dividends paid on preferred stock—\$.60 per share	1,311,101.73	—	—	1,311,101.73
	1,425,082.84	—	—	1,425,082.84
BALANCE AT DECEMBER 31, 1946 (Notes 3, 4 and 5)	\$45,801,853.82	\$22,406,832.28	\$3,955,385.07	\$19,439,636.47

See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1946

Note 1:

The Federal Power Commission has prescribed a uniform system of accounts for natural gas companies under its jurisdiction, effective January 1, 1940, which requires a study and restatement of gas plant of Arkansas Louisiana Gas Company, a consolidated subsidiary, to be made and completed by January 1, 1942 (extended to June 30, 1947). Until the necessary studies are completed, it is not known to what extent the accounts will be affected.

Note 2:

Inventories of crude and refined oils, with the exception of inventories of natural gasoline products, have been valued at cost, which is lower than aggregate market. Such cost for crude oil is on a last-in first-out annual basis and for refined oils on an average monthly basis. The cost of crude oil comprises purchases at cost and production at average gravity posted prices, plus gathering and transportation charges at tariff rates. Refined oils at wholesale terminals and bulk and service stations are priced at average cost which consists of cost plus freight and handling in the case of purchased products and cost of compounding materials plus compounding costs and freight and handling in the case of products manufactured at the grease plant. Inventories of natural gasoline products, carried on the books as of December 31, 1946 at \$81,374.58, have been valued at market. The amount of intercompany profit included in crude and refined oil inventories cannot be readily ascertained.

Note 3:

Under the terms of the original and supplemental indentures, securing the First Mortgage Bonds of Arkansas Louisiana Gas Company, a consolidated subsidiary, that company cannot, so long as any of the said bonds remain outstanding, make payment of interest or principal on the 4 $\frac{1}{4}$ % Debenture (eliminated in consolidation), or declare and pay any dividends (except stock dividends) or make any other distribution on its capital stock to its parent, Arkansas Natural Gas Corporation, or make any cash advance or loan to any affiliates, except out of earned surplus accumulated since August 31, 1939, after giving effect to any excess of depreciation charges computed as provided in the indenture over the amounts recorded on the books (no additional depreciation provision was necessary). The indentures further provide that no dividends may be paid or other distribution made unless immediately after such payments the Company has a certain definite current asset to current liability ratio. The restrictions thus imposed on consolidated earned surplus at December 31, 1946 aggregate \$5,540,031.42, which amount includes \$1,903,762.38 due to the restriction imposed by the current asset to current liability ratio provision.

Note 4:

Under the terms of agreement in connection with notes payable to banks of \$5,583,339.00, certain restrictions are imposed on Arkansas Fuel Oil Company, a consolidated subsidiary, including restrictions in respect of payments of dividends and on amounts due any parent company if such payments reduce cash balances or net current assets below certain stipulated amounts. Payments made during the year complied with these restrictions.

Note 5:

Under the consent decree entered by the U. S. District Court on December 23, 1941, pipe line earnings of Arkansas Pipeline Corporation, a consolidated subsidiary, since January 1, 1942 in excess of 7% of a calculated Interstate Commerce Commission valuation are restricted as to distribution and use. The restrictions thus imposed on consolidated earned surplus at December 31, 1946 aggregate \$90,403.43.

Note 6:

The depreciation provided by the Companies is based on studies made by engineers and represents, substantially, the amount considered necessary by them to write off the undepreciated balance of the property, net of estimated salvage, during the remaining useful life, including allowances for replacements necessary during that period.

The provision made for depletion of producing oil and gas properties is determined on an overall basis by dividing the recoverable oil and gas reserves estimated by engineers into the undepleted cost of the producing properties, net of estimated salvage, plus the estimated future development cost on the said reserves. As a result of the contiguity of the Companies' oil and gas properties and the fact that the variation in costs between leases is in the average not material, the amount so provided on an overall basis is not materially different from the aggregate amount that would result from computations made on a lease basis.

No provision has been made to write off the excess cost of investments in securities of subsidiary companies over the equity in net assets at dates of acquisition, which amount is included in capital assets.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1946

Note 7:

Under the applicable Federal Statute, the prices charged by the Company's consolidated subsidiaries for petroleum products under war contracts in the years 1942 to 1945, inclusive, are subject to renegotiation if excessive profits are considered to have occurred. At the date of this report, the renegotiation proceedings for the years 1942, 1943 and 1944 have been completed and no refunds have been required. Since the Companies believe that no excessive profits within the meaning of the Renegotiation Act were realized during the year 1945, no reserves have been provided in the accounts for any such contingency.

Note 8:

Under the Public Utility Holding Company Act of 1935, Section 11 (B) (1), an order was issued by the Securities and Exchange Commission on May 5, 1944, requiring the Arkansas Natural Gas Corporation to sever its corporate relationship with all companies within the holding company system not directly engaged in the business of production, transmission and distribution of natural gas. The Company's petition to set aside or modify this order was denied on March 22, 1946, by the Fifth U. S. Circuit Court of Appeals and the Company's application to the U. S. Supreme Court for a writ of Certiorari to said Fifth U. S. Circuit Court of Appeals was denied on October 14, 1946. The effect of the above on the corporate structure of the Arkansas Natural Gas Corporation and its subsidiaries is at present unknown.

CONTINGENT LIABILITIES:

Under suits and claims pending—amount indeterminate. It is estimated by counsel for the Companies that the ultimate liability in respect of pending litigation and claims of substantial amount will be negligible.

ARKANSAS NATURAL

BALANCE

At December

ASSETS

INVESTMENTS:

Securities of subsidiary companies		\$ 59,907,660.11
Advances to subsidiary company		200,000.00
Investment in 50% owned company, at cost:		
Lisbon Gasoline Company, Inc., capital stock (approximate net worth applicable thereto per that company's unaudited financial statements—\$181,940.07)		169,039.00
Investments in other securities at nominal value		7.00
Miscellaneous investments—plant, etc., at book value	\$ 310,325.49	
Less: Reserve for depreciation and retirements	160,575.85	149,749.64
		<u>60,426,455.75</u>

CURRENT ASSETS:

Cash in banks and on hand	716,842.97	
U. S. Treasury Tax Savings Notes, Series C, at cost	63,000.00	
Current account with subsidiary company	222.22	
Interest receivable on Arkansas Louisiana Gas Company Debenture	92,083.34	
Other interest receivable	604.80	872,753.33
		<u>872,753.33</u>

OTHER ASSETS:

Miscellaneous special funds	425.00	
Notes and accounts receivable (less reserve \$171.63)	250.00	675.00
		<u>\$ 61,299,884.08</u>

See pages Ten and Eleven for Notes to financial statements.

GAS CORPORATION

SHEET

31, 1946

CAPITAL AND LIABILITIES

CAPITAL STOCK:

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,854 shares, less in treasury 3,162 shares; outstanding 2,187,692 shares	\$ 21,876,920.00
---	------------------

Common—no par value:

Authorized 4,084,225 shares; issued 4,083,988 shares, less in treasury 3,277 shares; outstanding 4,080,711 shares—stated at	4,080,711.00
---	--------------

Class A Common (non-voting)—no par value:

Authorized 4,000,000 shares; issued 3,522,521 $\frac{1}{4}$ shares, less in treasury 250 shares; outstanding 3,522,271 $\frac{1}{4}$ shares—stated at	3,522,271.25
---	--------------

Reserve to provide for exchange of stock of predecessor company

(234.49 shares of preferred stock at \$10 per share and 237 shares of common stock at \$1 per share)	2,581.90
--	----------

29,482,484.15

CURRENT LIABILITIES:

Accounts payable	\$ 14,884.60	
Current account with subsidiary company	404.97	
Current account with mutual service company	1,454.83	
Accrued taxes and other charges	35,069.09	
Provision for Federal income taxes (subject to final determination by U. S. Treasury Department)	280,472.09	332,285.58

SURPLUS:

Capital surplus	22,406,832.28	
Earned surplus of merged companies at date of merger	3,955,385.07	
Earned surplus	5,122,897.00	31,485,114.35

\$61,299,884.08

ARKANSAS NATURAL GAS CORPORATION

Statements of Income and Surplus

For the Year Ended December 31, 1946

STATEMENT OF INCOME

GROSS INCOME:

Interest on indebtedness of subsidiary company	\$ 8,000.00	
Interest on Arkansas Louisiana Gas Company debenture	276,250.00	
Other interest	629.40	
Dividends from subsidiary companies	1,390,896.60	
Dividends—other	63,000.00	
Pipe line rental from subsidiary company	66,000.00	
Miscellaneous	289.00	\$ 1,805,065.00

EXPENSES:

General and administrative expenses, etc.	68,448.03	
Provision for depreciation and retirements of plant	19,766.21	
Taxes (other than income taxes)	34,341.83	
Rents	1,267.45	
Interest	7.41	123,830.93
		<u>1,681,234.07</u>

PROVISION FOR INCOME TAXES:

Federal income taxes (proportion of consolidated income taxes)	170,709.00	
State income taxes	599.82	171,308.82

NET INCOME		<u>\$ 1,509,925.25</u>
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STATEMENT OF SURPLUS

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1945	\$31,286,290.83	\$22,406,832.28	\$3,955,385.07	\$4,924,073.48
Add: Net income for the year ended Decem- ber 31, 1946	<u>1,509,925.25</u>	<u>—</u>	<u>—</u>	<u>1,509,925.25</u>
	32,796,216.08	22,406,832.28	3,955,385.07	6,433,998.73
Less: Dividends paid on preferred stock — \$.60 per share	<u>1,311,101.73</u>	<u>—</u>	<u>—</u>	<u>1,311,101.73</u>
BALANCE AT DECEMBER 31, 1946	<u>\$31,485,114.35</u>	<u>\$22,406,832.28</u>	<u>\$3,955,385.07</u>	<u>\$5,122,897.00</u>

See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION

Incorporated under the Laws of the State of Delaware, U. S. A.

Shreveport, Louisiana

BOARD OF DIRECTORS

PAUL G. BENEDUM	PITTSBURGH, PA.
ADDISON B. DALLY, JR.	PITTSBURGH, PA.
HARRY D. HANCOCK	NEW YORK, N. Y.
JOHN M. McMILLIN	NEW YORK, N. Y.
HENRY L. O'BRIEN	NEW YORK, N. Y.
GEORGE H. SHAW	NEW YORK, N. Y.
TEMPLE W. TUTWILER	BIRMINGHAM, ALA.
HENRY C. WALKER, JR.	SHREVEPORT, LA.
CHESTER L. WALLACE	PITTSBURGH, PA.
BURL S. WATSON	NEW YORK, N. Y.
ALVIN H. WEYLAND	SHREVEPORT, LA.
*JOHN O. WICKS	PITTSBURGH, PA.
FRANK A. WILLISON	PITTSBURGH, PA.

OFFICERS

HENRY C. WALKER, JR.	President
ALVIN H. WEYLAND	Vice-President & General Manager
H. THEO GOSS	Vice-President
THOMAS J. HEARD	Secretary
MORTIMER J. LASSEIGNE	Treasurer
JOSEPH T. GRIFFITH	Assistant Secretary
J. CARROLL HAMILTON	Assistant Secretary
EDGAR E. McWHINEY	Assistant Secretary
ERLE G. CHRISTIAN	Assistant Treasurer
HAROLD G. WALTERS	Assistant Treasurer

AUDITORS

ARTHUR YOUNG & COMPANY

*Died March 17, 1947.



Precision

When the baton of Paul Lavalle, director of Cities Service "Highways in Melody," speaks, 35 strings attack the musical score with a blended unity so perfect it seems to come from a single instrument. Such precision can only be achieved through careful planning and flawless execution.

The precision and harmony of "Highways in Melody" reflect the spirit of

the Cities Service organization itself. The vast, coordinated machinery of the most modern refining facilities pours forth a variety of more than 400 finished products with the harmony of a great orchestra... It is the same throughout the whole, closely integrated operation from oil well to service station.

For precision in petroleum and gas products, Cities Service leads the way!

ARKANSAS NATURAL GAS CORPORATION

ARKANSAS FUEL OIL COMPANY
ARKANSAS PIPELINE CORPORATION
ORANGE STATE OIL COMPANY
ARKANSAS LOUISIANA GAS COMPANY

CITIES



SERVICE

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1945

Arkansas Natural Gas Corporation

Annual Report
to Stockholders

Year Ended
December 31, 1945

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UNIVERSITY OF ILLINOIS

The annual meeting of stockholders of the Corporation will be held on October 17, 1946, at Dover, Delaware. It is expected that proxies for that meeting will be requested by the Management and that the notice of meeting, proxy statement and form of proxy will be mailed to stockholders on or before September 26, 1946. This Annual Report containing financial statements is not and must not be considered as proxy soliciting material or as a report or document filed pursuant to the Securities Exchange Act or any rule or regulation thereunder.

This Annual Report is submitted for the general information of the stockholders of the Corporation and is not intended to induce, or for use in connection with, any sale or purchase of securities.

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ARKANSAS NATURAL GAS CORPORATION

Annual Report

To the Stockholders:

The Annual Report of your Corporation for the calendar year 1945 is submitted herewith. Included are Financial Statements of the Corporation and Consolidated Financial Statements of the Corporation and Subsidiaries, as reported upon by Messrs. Arthur Young & Company, Accountants and Auditors.

Earnings: Consolidated Gross Operating Revenue for 1945 was \$56,135,467 as compared with \$56,294,809 for 1944. Consolidated Net Income for 1945 was \$4,396,304 as compared with \$3,512,075 for 1944.

The Gross Income of the Corporation for 1945 was \$3,225,989 as compared with \$3,416,471 for 1944 and the Net Income for 1945 was \$2,940,348 as compared with \$3,027,413 for 1944.

Financial: Consolidated Current Assets at December 31, 1945 were \$20,196,633 including \$9,738,471 of cash, as compared with Consolidated Current Assets of \$18,093,311 including \$7,031,118 of cash at December 31, 1944. Consolidated Current Liabilities were \$9,186,853 at December 31, 1945 as compared with Consolidated Current Liabilities of \$9,855,155 at December 31, 1944.

Consolidated Funded and Other Long Term Debt at the end of 1945 was \$16,444,915 as compared with \$14,679,625 at the close of the previous year.

The funded debt of Arkansas Louisiana Gas Company was reduced from \$11,700,000 to \$10,725,000 during the year.

Arkansas Fuel Oil Company made a new bank loan, issuing \$7,000,000 of its 2½% notes dated May 1, 1945, payable at the rate of \$83,333 per month from September 1, 1945 to February 1, 1952; \$166,675 on March 1 and April 1, and \$166,676 on May 1, 1952. The proceeds were used to pay the 3% notes remaining outstanding under the bank loan made in 1942 and to provide funds for the Company's oil and natural gasoline development program and additional working capital. The funded and other long term debt of the Company increased from \$2,801,625 to \$5,605,339 during the year.

Orange State Oil Company reduced its funded and other long term debt from \$178,000 to \$114,576.

Arkansas Natural Gas Corporation had no notes or loans outstanding at December 31, 1945.

Subsidiary Companies' Operations: Crude oil production in 1945 amounted to 5,505,102 net barrels compared with 5,500,009 net barrels in 1944. The average price per barrel received during 1945 was \$1.24 compared with an average price of \$1.21 in 1944.

Crude oil run to refinery was 6,450,275 barrels to the date refining operations ceased in 1945 compared with 7,393,327 barrels in 1944. Total gasoline produced in 1945 was 3,168,793 barrels compared with 3,311,942 barrels in 1944. Refined petroleum products sold during the year 1945 amounted to 467,309,465 gallons compared with 472,747,675 gallons sold in 1944.

The oil pipelines transported 8,738,543 barrels of oil in 1945 compared with 7,993,890 in 1944.

The production of natural gasoline was 24,434,706 gallons and the average sales price for this product during the year was \$.0489 per gallon compared with 23,700,984 gallons produced and an average sales price of \$.0527 per gallon in 1944. The production of other natural gasoline plant products during the year amounted to 39,083,952 gallons compared with 40,835,358 gallons in 1944 and the average sales price for these products was \$.034 per gallon, the same as in 1944.

Natural gas sales amounted to 88.9 billion cubic feet in 1945 as compared with 91.5 billion cubic feet in 1944. Included in these sales were 26.8 billion cubic feet supplied to war plants and military camps in 1945 as compared with 32 billion cubic feet supplied to such consumers in 1944. The number of natural gas customers at the end of 1945 was 133,175 as compared with 125,070 at the close of the previous year.

Construction: Combined total construction expenditures amounted to \$5,285,000 for the year and included \$1,595,000 for oil well drilling and equipment; \$954,000 for drilling gas wells; \$1,659,000 for natural gas pipelines, compressor stations and distribution facilities; \$650,000 for oil and gas leases; \$365,000 for natural gasoline plants and plant equipment; \$306,000 for marketing facilities; \$42,000 for oil pipelines; \$132,000 for numerous small projects and equipment and a retirement credit of \$418,000 for refinery plant and equipment.

Arkansas Fuel Oil Company drilled and completed two oil wells and one gas well in Louisiana, twelve oil wells and four gas wells in Texas, and acquired substantial interest in one gas well in Louisiana and eleven oil wells in Texas. The Company began the erection of a gasoline plant in Panola County, Texas, and will proceed with construction as rapidly as receipt of materials will permit. This plant will have a daily capacity for processing 60 million cubic feet of gas and the condensate produced with this volume of gas. The Company shut down, ceased to operate and wrote off its Bossier City, Louisiana Refinery due to the inability to manufacture refined petroleum products to meet market specifications of gasoline without the expenditure of a large sum of money. This expenditure was deemed inadvisable since the Company was able to procure and has executed a contract with Cities Service Refining Corporation at Lake Charles, Louisiana to purchase the requirements of refined petroleum products for its marketing outlets at an equivalent cost.

Arkansas Louisiana Gas Company drilled and completed fourteen gas wells in Texas including four part interest wells and acquired part interest in four gas wells located in Louisiana and Texas. Nine of the full interest and four of the part interest wells are located in the Carthage, Texas field, which has proven to be a major gas reserve for the Company's pipeline system. The Company increased its transmission and field lines 30.73 miles and distribution lines 80.43 miles, including 18 miles of transmission lines for rendering service to the Lone Star Steel Company located near Daingerfield, Texas; approximately 6 miles of transmission lines for rendering service to the Shumaker Naval Ordnance Works, near Camden, Arkansas; and numerous distribution line extensions to serve new customers.

Public Utility Holding Company Act: In the proceedings under Section 11(b)(1) of the Public Utility Holding Company Act of 1935 instituted by the Securities and Exchange Commission with respect to Cities Service Company and its subsidiaries, involving the relation of the Corporation and its Subsidiaries to Cities Service Company and of the Corporation to its Subsidiaries, an order was issued by the Securities and Exchange Commission on May 5, 1944, requiring the Arkansas Natural Gas Corporation to sever its corporate relationship with all companies within the holding company system not directly engaged in the business of production, transmission and distribution of natural gas. The Company petitioned the Fifth U. S. Circuit Court of Appeals to review this order of the Commission. On March 22, 1946 the court denied the Company's petition to set aside or modify the order. The Company intends to apply for further judicial review.

Your Board wishes to express its grateful acknowledgment and appreciation of the loyalty and cooperation of the employees of the Corporation and its Subsidiaries.

Respectfully submitted,

BOARD OF DIRECTORS,

By H. C. WALKER, JR.,
President.

March 28, 1946.

ARTHUR YOUNG & COMPANY

Accountants and Auditors

1 Cedar Street

New York 5, N. Y.

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors,
Arkansas Natural Gas Corporation:

We have examined the balance sheet of Arkansas Natural Gas Corporation, the consolidated balance sheet of Arkansas Natural Gas Corporation and its subsidiaries at December 31, 1945 and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. It was not practicable to confirm receivables from agencies of the U. S. Government, as to the substantial accuracy of which we satisfied ourselves by other means. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheets and statements of income and surplus present fairly the position of Arkansas Natural Gas Corporation and the position of Arkansas Natural Gas Corporation and its subsidiaries at December 31, 1945, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.,
February 23, 1946.

ARKANSAS NATURAL GAS CORPORATION

CONSOLIDATED

At December 31, 1964

ASSETS

CAPITAL ASSETS:

Leaseholds, oil and gas producing properties, storage facilities, pipe lines, refineries, service stations, distribution system, etc., including intangibles (amount undetermined) at book value (Note 1)	\$104,927,209.20	
Less: Reserves for depletion, depreciation and retirements	38,712,611.89	\$ 66,214,597.31
Excess of investment in securities of subsidiary companies herein consolidated over equity in net assets thereof at dates of acquisition		13,012,302.93
Investments:		
In 50% owned company, at cost—		
Lisbon Gasoline Company, Inc., capital stock (approximate net worth applicable thereto per that company's financial statements —\$181,149.98)	169,039.00	
In capital stocks of mutual service companies, at cost	65,000.00	
Miscellaneous investments, at or below cost, less reserve \$17,000.00	156,384.72	
Cash surrender value of life insurance policies	39,030.00	429,453.72
		<u>79,656,353.96</u>

CURRENT ASSETS:

Cash in banks and on hand	9,738,471.33	
U. S. Treasury Tax Savings Notes, Series C, at cost	1,070,000.00	
Customers' accounts receivable, including unbilled gas revenue, less reserve \$427,270.53	2,460,569.35	
Merchandise accounts receivable, less deferred carrying charges \$374.73 and reserve \$1,447.54	8,779.02	
Due from agencies of U. S. Government	580,681.95	
Current accounts with affiliated companies	34,623.67	
Miscellaneous accounts and notes receivable, less reserve \$20,500.00	366,098.49	
Crude and refined oils, at cost (Note 2)	3,926,607.21	
Accessories and merchandise for resale, at or below cost	290,762.48	
Materials (including construction materials) and supplies, at or below average cost	1,471,875.50	
Prepaid insurance, rentals and other expenses	248,164.36	20,196,633.36

OTHER ASSETS:

Special cash deposits	78,543.54	
Accounts and notes receivable—not current, less reserve \$99,453.08	44,271.49	
Unliquidated proceeds of leases sold, recoverable solely out of future production, less reserve \$54,000.00	\$89,406.32	
Less: Reserve for unearned income	71,648.12	17,758.20
Advances to personnel	125.00	140,698.23

DEFERRED CHARGES:

Unamortized debt expense	58,747.20	
Estimated salvage recoverable from abandoned refinery (Note 9)	535,000.00	
Other deferred charges and miscellaneous unadjusted debits	91,802.09	685,549.29
		<u>\$100,679,234.84</u>

See pages Eight, Ten and Eleven for Schedules and Notes to financial statements.

ATION AND SUBSIDIARY COMPANIES

ALANCE SHEET

r 31, 1945

CAPITAL AND LIABILITIES

CAPITAL STOCK OF ARKANSAS NATURAL GAS CORPORATION, per schedule attached:

Preferred stock	\$ 21,875,860.00
Common stock	4,080,601.00
Class A Common stock (non-voting)	3,522,271.25
Reserve to provide for exchange of stock of predecessor company	3,751.90
	<u>29,482,484.15</u>

MINORITY INTEREST IN SUBSIDIARY:

Arkansas Fuel Oil Company—

Preferred 6% cumulative stock—8,915 shares of a par value of \$10 per share	89,150.00
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FUNDED AND OTHER LONG TERM DEBT:

Subsidiary companies, per schedule attached—

First mortgage bonds (\$1,000,000.00 due in 1946) (Note 3)	\$ 10,725,000.00
General mortgage notes (\$66,000.00 due in 1946)	112,000.00
Mortgage notes, maturing after one year	24,575.75
Notes payable to banks, maturing after one year (Note 4)	5,583,339.00
	<u>16,444,914.75</u>

LIABILITY TO STOCKHOLDERS OF LOUISIANA OIL REFINING CORPORATION, payable in preferred stock or cash of Arkansas Fuel Oil Company

25,486.75

CURRENT LIABILITIES (exclusive of \$1,066,000.00 for 1946 requirements in respect of funded debt):

Notes payable:

Banks (Note 4)	999,996.00
Purchase money obligations	5,120.80

1,005,116.80

3,215,318.73

235,231.71

115,682.00

1,010,518.00

1,082,448.72

2,522,536.73

9,186,852.69

OTHER LIABILITIES:

Drilling and lease costs payable out of future production 187,175.45

Advances for line extensions (including \$2,171,952.15 from agencies of U.S. Government) 2,318,407.75

Miscellaneous accounts 359.65

2,505,942.85

CONTRIBUTIONS FOR EXTENSIONS—NOT REFUNDABLE 352,883.63

SURPLUS:

Capital surplus 22,406,832.28

Earned surplus of merged companies at date of merger 3,955,385.07

Earned surplus (Notes 3, 4 and 5) 16,229,302.67

42,591,520.02

\$100,679,234.84

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES
SCHEDULES TO CONSOLIDATED BALANCE SHEET
At December 31, 1945

Capital Stock of Arkansas Natural Gas Corporation

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,748 shares, less in treasury 3,162 shares; outstanding 2,187,586 shares	\$ 21,875,860.00
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Common—no par value:

Authorized 4,084,225 shares; issued 4,083,878 shares, less in treasury 3,277 shares; outstanding 4,080,601 shares—stated at	4,080,601.00
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Class A Common (non-voting)—no par value:

Authorized 4,000,000 shares; issued 3,522,521 ¹ / ₄ shares, less in treasury 250 shares; outstanding 3,522,271 ¹ / ₄ shares—stated at	3,522,271.25
---	--------------

Reserve to provide for exchange of stock of predecessor company

(340.49 shares of preferred stock at \$10.00 per share and 347 shares of common stock at \$1.00 per share)	3,751.90
	\$ 29,482,484.15

Funded and Other Long Term Debt of Subsidiary Companies

Arkansas Louisiana Gas Company:

First Mortgage Bonds (Note 3)—

3 ¹ / ₂ % Series B, due 1946-1954 (\$800,000.00 due in 1946)	\$ 8,900,000.00	
2 ¹ / ₂ % Series C, due 1946-1947 (\$200,000.00 due in 1946)	325,000.00	
3 ¹ / ₄ % Series D, due 1948-1953	1,500,000.00	\$ 10,725,000.00

Arkansas Fuel Oil Company:

Mortgage Notes, maturing after one year	22,000.00	
Notes Payable to Banks, maturing after one year (Note 4)	5,583,339.00	5,605,339.00

Orange State Oil Company:

General Mortgage Notes, due 1946-1947 (\$66,000.00 due in 1946)	112,000.00	
Mortgage Notes, maturing after one year	2,575.75	114,575.75
		\$ 16,444,914.75

See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME

For the Year Ended December 31, 1945

GROSS OPERATING REVENUE (after deducting allowances):		
Crude and refined oils and accessories	\$ 42,923,589.45	
Natural gas	13,211,877.17	\$ 56,135,466.62
OPERATING AND OTHER EXPENSES:		
Cost of sales, operating, selling, general and administrative expenses (including operations from merchandise sales and job work, and provision for bad debts)	37,859,979.18	
Maintenance and repairs	2,488,763.96	
Provision for depletion, depreciation and retirements (Note 6)	4,801,777.08	
Cancelled undeveloped lease and dry hole expenses	1,541,682.15	
Rents and royalties (exclusive of oil royalties)	1,133,864.76	
Taxes (other than income taxes)	2,052,810.32	49,878,877.45
NET OPERATING REVENUE		6,256,589.17
OTHER INCOME:		
Carrying charges collected on merchandise installment sales	461.79	
Interest	18,547.59	
Dividends	72,179.20	
Profit on leases sold	8,938.13	
Cash discounts	68,958.55	
Miscellaneous	39,417.07	208,502.33
GROSS INCOME		6,465,091.50
INTEREST AND OTHER CHARGES:		
Interest on funded debt (including purchase money obligations)	395,166.02	
Other interest	254,990.19	
Amortization of debt expense	13,232.02	
Special charge for portion of loss on abandonment of refinery equivalent to reduction in Federal income tax attributable thereto (remainder charged to earned surplus) (Note 9)	136,976.00	
Miscellaneous income deductions	56,996.06	
Proportion of net income of subsidiary applicable to minority interests—Dividends paid on Arkansas Fuel Oil Company preferred stock	5,433.00	862,793.29
		5,602,298.21
PROVISION FOR INCOME TAXES:		
Federal income taxes (no excess profits tax is anticipated)	1,114,599.45	
State income taxes	91,394.56	1,205,994.01
NET INCOME		\$ 4,396,304.20

STATEMENT OF CONSOLIDATED SURPLUS

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Surplus Earned
BALANCE AT DECEMBER 31, 1944	\$42,154,362.65	\$22,406,832.28	\$3,955,385.07	\$15,792,145.30
Add: Net income for the year ended December 31, 1945	4,396,304.20	—	—	4,396,304.20
Excess accruals for Federal income taxes for prior years	158,316.49	—	—	158,316.49
	<u>46,708,983.34</u>	<u>22,406,832.28</u>	<u>3,955,385.07</u>	<u>20,346,765.99</u>
Deduct: Additional depreciation (\$1,464,331.18) and other charges (\$165,004.94) to write down abandoned refinery to estimated salvage value, less portion (\$136,976.00) thereof charged to income being equivalent to reduction in Federal income tax resulting therefrom (Note 9)	1,492,360.12	—	—	1,492,360.12
Dividends paid on preferred stock—\$1.20 per share	2,625,103.20	—	—	2,625,103.20
	<u>4,117,463.32</u>	<u>—</u>	<u>—</u>	<u>4,117,463.32</u>
BALANCE AT DECEMBER 31, 1945 (Notes 3, 4 and 5)	\$42,591,520.02	\$22,406,832.28	\$3,955,385.07	\$16,229,302.67

See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1945

Note 1:

The Federal Power Commission has prescribed a uniform system of accounts for natural gas companies under its jurisdiction, effective January 1, 1940, which requires a study and restatement of gas plant of Arkansas Louisiana Gas Company, a consolidated subsidiary, to be made and completed by January 1, 1942 (extended to July 1, 1946). Until the necessary studies are completed, it is not known to what extent the accounts will be affected.

Note 2:

Inventories of crude and refined oils have been valued at cost, which is lower than aggregate market. Such cost for crude oil is on a last-in first-out annual basis and for refined oils on an average monthly basis. The cost of crude oil comprises purchases at cost and production at average gravity posted prices, plus gathering and transportation charges at tariff rates. Refined oils at refinery, wholesale terminals and bulk and service stations are priced at average cost which, in the case of manufactured products, consists of crude oil cost as described above plus refinery costs and freight and handling and, in the case of purchased products, consists of cost plus freight and handling. The amount of intercompany profit included in crude and refined oil inventories cannot be readily ascertained.

Note 3:

Under the terms of the original and supplemental indentures, securing the First Mortgage Bonds of Arkansas Louisiana Gas Company, a consolidated subsidiary, that company cannot, so long as any of the said bonds remain outstanding, make payment of interest or principal on the 4 $\frac{1}{4}$ % Debenture (eliminated in consolidation), or declare and pay any dividends (except stock dividends) or make any other distribution on its capital stock to its parent, Arkansas Natural Gas Corporation, or make any cash advance or loan to any affiliates, except out of earned surplus accumulated since August 31, 1939, after giving effect to any excess of depreciation charges computed as provided in the indenture over the amounts recorded on the books (no additional depreciation provision was necessary). The indentures further provide that no dividends may be paid or other distribution made unless, immediately after such payments, the Company has a certain definite current asset to current liability ratio. The restrictions thus imposed on consolidated earned surplus at December 31, 1945 aggregate \$3,959,520.37, which amount includes \$323,251.33 due to the restriction imposed by the current asset to current liability ratio provision.

Note 4:

Under the terms of agreement in connection with notes payable to banks of \$6,583,335.00 certain restrictions are imposed on Arkansas Fuel Oil Company, a consolidated subsidiary, including restrictions in respect of payments of dividends and on amounts due any parent company if such payments reduce cash balances or net current assets below certain stipulated amounts. Payments made during the year complied with these restrictions.

Note 5:

Under the consent decree entered by the U. S. District Court on December 23, 1941, pipe line earnings of Arkansas Pipeline Corporation, a consolidated subsidiary, since January 1, 1942 in excess of 7% of a calculated Interstate Commerce Commission valuation are restricted as to distribution and use. The restrictions thus imposed on consolidated earned surplus at December 31, 1945 aggregate \$90,403.43.

Note 6:

The depreciation provided by the Companies is based on studies made by engineers and represents, substantially, the amount considered necessary by them to write off the undepreciated balance of the property, net of estimated salvage, during the remaining useful life, including allowances for replacements necessary during that period.

The provision made for depletion of producing oil and gas properties is determined on an overall basis by dividing the recoverable oil and gas reserves estimated by engineers into the undepleted cost of the producing properties, net of estimated salvage, plus the estimated future development cost on the said reserves. As a result of the contiguity of the Companies' oil and gas properties and the fact that the variation in costs between leases is in the average not material, the amount so provided on an overall basis is not materially different from the aggregate amount that would result from computations made on a lease basis.

No provision has been made to write off the excess cost of investments in securities of subsidiary companies over the equity in net assets at dates of acquisition, which amount is included in capital assets.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1945

Note 7:

Under the applicable Federal Statute, the prices charged by the Company's consolidated subsidiaries for petroleum products under war contracts in the years 1942 to 1945, inclusive, are subject to renegotiation if excessive profits are considered to have occurred. At the date of this report, the government had requested and been furnished with certain information in respect of the transactions for the years 1942 to 1944, inclusive. On the basis of information thus furnished for the years 1942 and 1943, the Companies were advised by the authorized Price Adjustment Boards, that according to findings of such Boards no excessive profits were realized by the Companies during these years. As the Companies believe that no excessive profits within the meaning of the Renegotiation Act have been realized during the years 1944 and 1945, no reserves have been provided in the accounts for any such adjustments.

Note 8:

Under the Public Utility Holding Company Act of 1935, Section 11(b) (1), an order was issued by the Securities and Exchange Commission on May 5, 1944, requiring the Arkansas Natural Gas Corporation to sever its corporate relationship with all companies within the holding company system not directly engaged in the business of production, transmission and distribution of natural gas. This order of the Securities and Exchange Commission upon application of the Company is pending in review in the Fifth U. S. Circuit Court of Appeals. The effect of the above on the corporate structure of the Arkansas Natural Gas Corporation and its subsidiaries is at present unknown.

Note 9:

The Arkansas Fuel Oil Company, a consolidated subsidiary, abandoned its Bossier City Refinery in November 1945, and wrote down the value of this property to an estimated net salvage value of \$535,000.00. Earned surplus was charged with an aggregate of \$1,629,336.12 in respect of this abandonment and other charges pertaining thereto.

In calculating the provision for Federal income taxes for the year, which is based on a consolidated return to be filed by its parent company, Arkansas Natural Gas Corporation, a taxable loss in respect of the aforementioned abandonment was deducted which reduced the consolidated provision for Federal income taxes by approximately \$400,278.00. As without this deduction the Federal income tax payable by the Arkansas Fuel Oil Company for the year would have been \$136,976.00, that amount has been assigned as its share of the tax reduction. A special charge equivalent to the tax reduction of \$136,976.00 has been made in that company's income account with a corresponding credit to earned surplus for a portion of the abandonment charges included in its earned surplus.

CONTINGENT LIABILITIES:

Under suits and claims pending—amount indeterminate. It is estimated by counsel for the Companies that the ultimate liability in respect of pending litigation and claims of substantial amount will be negligible.

ARKANSAS NATURAL

BALANCE

At December

ASSETS

INVESTMENTS:

Securities of subsidiary companies		\$ 59,907,660.11
Advances to subsidiary company		200,000.00
Investment in 50% owned company, at cost—		
Lisbon Gasoline Company, Inc., capital stock (approximate net worth applicable thereto per that company's financial statements— \$181,149.98)		169,039.00
Investments in other securities, at nominal value		7.00
Miscellaneous investments—plant, etc., at book value	\$ 319,324.12	
Less: Reserve for depreciation and retirements	149,363.17	169,960.95
		<u>60,446,667.06</u>

CURRENT ASSETS:

Cash in banks and on hand	444,486.30	
U. S. Treasury Tax Savings Notes, Series C, at cost	90,000.00	
Current accounts with subsidiary companies	316.69	
Interest receivable on Arkansas Louisiana Gas Company Debenture	92,083.34	
Other interest receivable	118.00	627,004.33

OTHER ASSETS:

Miscellaneous special funds	425.00	
Notes and accounts receivable (less reserve \$214.53)	250.00	675.00
		<u>\$ 61,074,346.39</u>

See pages Ten and Eleven for Notes to financial statements.

GAS CORPORATION

SHEET

for 31, 1945

CAPITAL AND LIABILITIES

CAPITAL STOCK:

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,748 shares, less in treasury 3,162 shares; outstanding 2,187,586 shares	\$ 21,875,860.00
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Common—no par value:

Authorized 4,084,225 shares; issued 4,083,878 shares, less in treasury 3,277 shares; outstanding 4,080,601 shares—stated at	4,080,601.00
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Class A Common (non-voting)—no par value:

Authorized 4,000,000 shares; issued 3,522,521 ¹ / ₄ shares, less in treasury 250 shares; outstanding 3,522,271 ¹ / ₄ shares—stated at	3,522,271.25
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Reserve to provide for exchange of stock of predecessor company

(340.49 shares of preferred stock at \$10 per share and 347 shares of common stock at \$1 per share)	3,751.90
	<u>29,482,484.15</u>

CURRENT LIABILITIES:

Accounts payable	\$ 19,866.73	
Current accounts with subsidiary companies	468.31	
Current account with mutual service company	1,494.04	
Accrued taxes and other charges	33,811.42	
Provision for Federal income taxes (subject to final determination by U. S. Treasury Department)	249,930.91	305,571.41

SURPLUS:

Capital surplus	22,406,832.28	
Earned surplus of merged companies at date of merger	3,955,385.07	
Earned surplus	4,924,073.48	31,286,290.83
		<u>\$ 61,074,346.39</u>

ARKANSAS NATURAL GAS CORPORATION

Statements of Income and Surplus For the Year Ended December 31, 1945

STATEMENT OF INCOME

GROSS INCOME:

Interest on indebtedness of subsidiary company	\$ 8,000.00	
Interest on Arkansas Louisiana Gas Company debenture	276,250.00	
Other interest	614.00	
Dividends from subsidiary companies	2,802,903.90	
Dividends—other	72,000.00	
Pipe line rental from subsidiary company	66,000.00	
Miscellaneous	220.94	\$ 3,225,988.84

EXPENSES:

General and administrative expenses, etc.	67,550.20	
Provision for depreciation and retirements of plant	19,766.21	
Taxes (other than income taxes)	34,287.20	
Rents	1,286.63	
Interest	1,216.57	124,106.81
		<u>3,101,882.03</u>

PROVISION FOR INCOME TAXES:

Federal income taxes (proportion of consolidated income taxes)	158,461.00	
State income taxes	3,072.65	161,533.65

NET INCOME		<u><u>\$ 2,940,348.38</u></u>
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STATEMENT OF SURPLUS

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1944	\$30,964,469.89	\$22,406,832.28	\$3,955,385.07	\$4,602,252.54
Add: Net income for the year ended Decem- ber 31, 1945	2,940,348.38	—	—	2,940,348.38
Excess accruals for Federal income taxes for prior years	6,575.76	—	—	6,575.76
	<u>33,911,394.03</u>	<u>22,406,832.28</u>	<u>3,955,385.07</u>	<u>7,549,176.68</u>
Less: Dividends paid on preferred stock— \$1.20 per share	2,625,103.20	—	—	2,625,103.20
BALANCE AT DECEMBER 31, 1945	<u><u>\$31,286,290.83</u></u>	<u><u>\$22,406,832.28</u></u>	<u><u>\$3,955,385.07</u></u>	<u><u>\$4,924,073.48</u></u>

See pages Ten and Eleven for Notes to financial statements.

ARKANSAS NATURAL GAS CORPORATION

Incorporated under the Laws of the State of Delaware, U. S. A.

Shreveport, Louisiana

BOARD OF DIRECTORS

PAUL G. BENEDUM	HOUSTON, TEX.
ADDISON B. DALLY, JR.	PITTSBURGH, PA.
HARRY D. HANCOCK	NEW YORK, N. Y.
JOHN M. McMILLIN	NEW YORK, N. Y.
JOHN R. MUNCE	SARASOTA, FLA.
HENRY L. O'BRIEN	NEW YORK, N. Y.
GEORGE H. SHAW	NEW YORK, N. Y.
TEMPLE W. TUTWILER	BIRMINGHAM, ALA.
HENRY C. WALKER, JR.	SHREVEPORT, LA.
BURL S. WATSON	NEW YORK, N. Y.
ALVIN H. WEYLAND	SHREVEPORT, LA.
JOHN O. WICKS	PITTSBURGH, PA.
FRANK A. WILLISON	PITTSBURGH, PA.

OFFICERS

HENRY C. WALKER, JR.	President
ALVIN H. WEYLAND	Vice-President & General Manager
JOHN R. MUNCE	Vice-President
H. THEO. GOSS	Vice-President
THOMAS J. HEARD	Secretary
MORTIMER J. LASSEIGNE	Treasurer
JOSEPH T. GRIFFITH	Assistant Secretary
J. CARROLL HAMILTON	Assistant Secretary
EDGAR E. McWHINEY	Assistant Secretary
ERLE G. CHRISTIAN	Assistant Treasurer
HAROLD G. WALTERS	Assistant Treasurer

AUDITORS

ARTHUR YOUNG & COMPANY

March 28, 1946.

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Arkansas Natural Gas Corporation

Annual Report
to Stockholders

Year Ended
December 31, 1944

The annual meeting of stockholders of the Corporation will be held on October 18, 1945, at Dover, Delaware. It is expected that proxies for that meeting will be requested by the Management and that the notice of meeting, proxy statement and form of proxy will be mailed to stockholders on or before September 27, 1945. This Annual Report containing financial statements is not and must not be considered as proxy soliciting material or as a report or document filed pursuant to the Securities Exchange Act or any rule or regulation thereunder.

This Annual Report is submitted for the general information of the stockholders of the Corporation and is not intended to induce, or for use in connection with, any sale or purchase of securities.

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ARKANSAS NATURAL GAS CORPORATION

Annual Report

To the Stockholders:

The Annual Report of your Corporation, for the calendar year 1944, is submitted herewith. Included are Financial Statements of the Corporation and Consolidated Financial Statements of the Corporation and Subsidiaries, as reported upon by Messrs. Arthur Young & Company, Accountants and Auditors.

Earnings: Consolidated Gross Operating Revenue for 1944 was \$56,294,809, as compared with \$47,585,097 for 1943. Consolidated Net Income for 1944 was \$3,512,075, as compared with \$2,813,670 for 1943.

The Gross Income of the Corporation for 1944 was \$3,416,471, as compared with \$2,774,291 for 1943 and the Net Income for 1944 was \$3,027,413, as compared with \$2,408,130 for 1943.

Financial: Consolidated Current Assets at December 31, 1944 were \$18,093,311 including \$7,031,118 of cash, as compared with Consolidated Current Assets of \$18,003,187, including \$8,429,988 of cash at December 31, 1943. Consolidated Current Liabilities were \$9,855,155 at December 31, 1944, as compared with Consolidated Current Liabilities of \$9,687,043 at December 31, 1943.

Consolidated Funded and Other Long Term Debt at the end of 1944 was \$14,679,625, as compared with \$16,400,250 at the close of the previous year.

Arkansas Louisiana Gas Company reduced its funded debt from \$12,450,000 to \$11,700,000 during the year.

Arkansas Fuel Oil Company reduced its funded and other long term debt from \$3,706,250 to \$2,801,625.

Orange State Oil Company reduced its funded and other long term debt from \$244,000 to \$178,000.

Arkansas Natural Gas Corporation had no notes or loans outstanding at December 31, 1944.

Subsidiary Companies' Operations: Crude oil production in 1944 amounted to 5,500,009 net barrels, compared with 5,377,366 net barrels in 1943. The average price per barrel received during 1944 was \$1.21, compared with an average price of \$1.18 in 1943.

Crude oil run to refinery was 7,393,327 barrels in 1944, compared with 7,290,624 barrels in 1943. Total gasoline produced in 1944 was 3,311,942 barrels, compared with 3,032,107 barrels in 1943. Refined petroleum products sold during the year 1944 amounted to 472,747,675 gallons, compared with 373,876,251 gallons sold in 1943.

The oil pipelines transported 7,993,890 barrels of oil in 1944 compared with 8,413,261 in 1943.

The production of natural gasoline was 23,700,984 gallons and the average sales price for this product during the year was \$.0527 per gallon, compared with 19,042,283 gallons produced and an average sales price of \$.0453 per gallon in 1943. The production of other natural gasoline plant products during the year amounted to 40,835,358 gallons compared with 35,864,959 gallons in 1943, and the average sales price for these products was \$.034 per gallon in 1944 compared with \$.035 per gallon in 1943.

Natural gas sales amounted to 91.5 billion cubic feet in 1944, as compared with 82.3 billion cubic feet in 1943. The number of customers at the end of 1944 was 125,070 as compared with 118,691 at the close of the previous year. Natural gas sales for year 1944 include 32 billion cubic feet supplied to war plants and military camps, as compared to 25.2 billion cubic feet in 1943.

Construction: Combined total construction expenditures amounted to \$4,585,000 for the year and included \$864,000 for oil well drilling and equipment; \$693,000 for drilling gas wells; \$999,000 for natural gas pipelines, compressor stations and distribution facilities; \$1,048,000 for oil and gas leases; \$609,000 for natural gasoline plants and plant equipment; \$154,000 for marketing facilities; \$47,000 for refinery plant equipment; \$38,000 for oil pipelines and \$133,000 for numerous small projects and equipment.

Arkansas Fuel Oil Company drilled and completed nine oil wells and one gas well in the states of Arkansas and Texas, including one part interest oil well, and acquired substantial interest in three additional wells in the states of Arkansas, Texas and Oklahoma.

Arkansas Louisiana Gas Company drilled and completed seven gas wells in the states of Louisiana, Texas and Arkansas including three part interest wells. Four of such wells with open flows averaging approximately 90 million cubic feet per day were drilled in the Carthage, Texas field where your company has acquired through lease purchases substantial amounts of acreage. It is apparent that this field is one of the largest gas reservoirs to be discovered in recent years and that your company's holdings, 18,000 acres of which are now considered to be proven productive, constitute a major gas reserve for the future requirements of its pipeline system.

War Activities: Being engaged in the essential industries of producing and distributing petroleum products and natural gas, the corporation and its subsidiaries have continued to render important service in the war effort. Full cooperation is being given to Government agencies by our companies and personnel toward the successful prosecution of the war. Over 886 employees of the companies have entered the armed forces.

Public Utility Holding Company Act: In the proceedings under Section 11(b)(1) of the Public Utility Holding Company Act of 1935 instituted by the Securities and Exchange Commission with respect to Cities Service Company and its subsidiaries, involving the relation of the Corporation and its Subsidiaries to Cities Service Company and of the Corporation to its Subsidiaries, an order was issued by the Securities and Exchange Commission on May 5, 1944, requiring the Arkansas Natural Gas Corporation to sever its corporate relationship with all companies within the holding company system not directly engaged in the business of production, transmission and distribution of natural gas. This order of the Securities and Exchange Commission, upon application of Company, is pending in review in the Fifth U. S. Circuit Court of Appeals. The effect of the above review on the corporate structure of the Arkansas Natural Gas Corporation and its Subsidiaries is at present unknown.

Your Board wishes to express its grateful acknowledgment and appreciation of the loyalty and cooperation of the employees of the Corporation and its Subsidiaries.

Respectfully submitted,

BOARD OF DIRECTORS,

By: DAVID W. HARRIS,
President.

March 22, 1945.

ARTHUR YOUNG & COMPANY

Accountants and Auditors

1 Cedar Street

New York 5, N. Y.

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Arkansas Natural Gas Corporation:

We have examined the balance sheet of Arkansas Natural Gas Corporation, the consolidated balance sheet of Arkansas Natural Gas Corporation and its subsidiaries at December 31, 1944 and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. It was not practicable to confirm receivables from agencies of the U. S. Government, as to the substantial accuracy of which we satisfied ourselves by other means. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheets and statements of income and surplus present fairly the position of Arkansas Natural Gas Corporation and the position of Arkansas Natural Gas Corporation and its subsidiaries at December 31, 1944, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.,
February 27, 1945.

ARKANSAS NATURAL GAS CORPORATION

CONSOLIDATED

At December 31, 1963

ASSETS

CAPITAL ASSETS:

Leaseholds, oil and gas producing properties, storage facilities, pipe lines, refineries, service stations, distribution systems, etc., including intangibles (amount undetermined) at book value (Note 1)	\$105,201,181.07	
Less: Reserves for depletion, depreciation and retirements	37,737,494.96	\$ 67,463,686.11
Excess of investment in securities of subsidiary companies herein consolidated over equity in net assets thereof at dates of acquisition		13,012,302.93
Investments—		
In 50% owned company, at cost—		
Lisbon Gasoline Company, Inc., capital stock (approximate net worth applicable thereto per that company's financial statements —\$184,540.82)	169,039.00	
In capital stocks of mutual service companies, at cost	65,000.00	
Miscellaneous investments, at or below cost, less reserve \$25,000.00	163,484.72	
Cash surrender value of life insurance policies	36,012.50	433,536.22
		<u>80,909,525.26</u>

CURRENT ASSETS:

Cash in banks and on hand	7,031,118.12	
U. S. Treasury Tax Savings Notes, Series C, at cost	1,048,000.00	
Customers' accounts receivable, including unbilled gas revenue, less reserve \$349,785.15	2,925,766.93	
Merchandise accounts receivable, less deferred carrying charges \$233.73 and reserve \$1,667.69	6,434.75	
Due from agencies of U. S. Government	1,232,803.39	
Current accounts with affiliated companies	189,911.32	
Miscellaneous accounts and notes receivable, less reserve \$20,000.00	254,760.07	
Crude and refined oils, at cost (Note 2)	3,466,379.41	
Accessories and merchandise for resale, at or below cost	134,625.25	
Materials (including construction materials) and supplies, at or below average cost	1,511,955.57	
Prepaid insurance, rentals and other expenses	291,556.36	18,093,311.17

OTHER ASSETS:

Special cash deposits	23,733.92	
Accounts and notes receivable—not current, less reserve \$129,192.91	34,467.00	
Unliquidated proceeds of leases sold, recoverable solely out of future production, less reserve \$100,000.00	\$81,116.42	
Less: Reserve for unearned income	80,586.25	530.17
Advances to personnel	300.00	59,031.09

DEFERRED CHARGES:

Unamortized debt expense	71,979.22	
Other deferred charges and miscellaneous unadjusted debits	93,199.39	165,178.61

\$ 99,227,046.13

See pages Eight, Ten and Eleven for Schedules and Notes.

ATION AND SUBSIDIARY COMPANIES

BALANCE SHEET

er 31, 1944

CAPITAL AND LIABILITIES

CAPITAL STOCK OF ARKANSAS NATURAL GAS CORPORATION, per schedule attached:

Preferred stock	\$ 21,875,860.00
Common stock	4,080,601.00
Class A Common stock (non-voting)	3,522,271.25
Reserve to provide for exchange of stock of predecessor company	3,751.90
	29,482,484.15

MINORITY INTEREST IN SUBSIDIARY:

Arkansas Fuel Oil Company— Preferred 6% Cumulative—8,897½ shares of a par value of \$10 each	88,975.00
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FUNDED AND OTHER LONG TERM DEBT:

Subsidiary companies, per schedule attached— First mortgage bonds (\$975,000.00 due in 1945) (Note 3)	\$ 11,700,000.00	
General mortgage notes (\$66,000.00 due in 1945)	178,000.00	
Mortgage notes, maturing after one year	26,625.00	
Notes payable to banks, maturing after one year (Note 4)	2,775,000.00	14,679,625.00

LIABILITY TO STOCKHOLDERS OF LOUISIANA OIL REFINING CORPORATION, payable in preferred stock or cash of Arkansas Fuel Oil Company

26,374.25

CURRENT LIABILITIES (exclusive of \$1,041,000.00 for 1945 requirements in respect of funded debt):

Notes payable— Banks (Note 4)	900,000.00	
Purchase money obligations	4,625.00	
	904,625.00	
Accounts payable	3,371,447.95	
Current accounts with affiliated and mutual service companies	25,142.36	
Accrued interest on funded and other long term debt	126,694.73	
Accrued interest, taxes and other charges	1,280,634.10	
Customers' deposits	981,035.96	
Provision for federal income taxes (subject to final determination by U. S. Treasury Department)	3,165,575.24	9,855,155.34

OTHER LIABILITIES:

Drilling and lease costs payable out of future production	214,216.79	
Advances for line extensions (including \$2,275,196.11 from agencies of U. S. Government)	2,406,384.93	
Miscellaneous accounts	287.23	2,620,888.95

CONTRIBUTIONS FOR EXTENSIONS—NOT REFUNDABLE

319,180.79

SURPLUS:

Capital surplus	22,406,832.28	
Earned surplus of merged companies at date of merger	3,955,385.07	
Earned surplus (Notes 3, 4 and 5)	15,792,145.30	42,154,362.65
		\$ 99,227,046.13

Preferred stock dividends unpaid amount to \$.60 per share or \$1,312,551.60.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

SCHEDULES TO CONSOLIDATED BALANCE SHEET

At December 31, 1944

Capital Stock of Arkansas Natural Gas Corporation

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,748 shares, less in treasury 3,162 shares; outstanding 2,187,586 shares	\$ 21,875,860.00
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Common—no par value:

Authorized 4,084,225 shares; issued 4,083,878 shares, less in treasury 3,277 shares; outstanding 4,080,601 shares—stated at	4,080,601.00
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Class A Common (non-voting)—no par value:

Authorized 4,000,000 shares; issued 3,522,521 1/4 shares, less in treasury 250 shares; outstanding 3,522,271 1/4 shares—stated at	3,522,271.25
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Reserve to provide for exchange of stock of predecessor company

(340.49 shares of preferred stock at \$10.00 per share and 347 shares of common stock at \$1.00 per share)	3,751.90
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	\$ 29,482,484.15
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Funded and Other Long Term Debt of Subsidiary Companies

Arkansas Louisiana Gas Company:

First Mortgage Bonds—(Note 3)

3 1/2% Series B, due 1945-1954 (\$800,000.00 due in 1945)	\$ 9,700,000.00	
2 1/2% Series C, due 1945-1947 (\$175,000.00 due in 1945)	500,000.00	
3 1/4% Series D, due 1948-1953	1,500,000.00	\$ 11,700,000.00

Arkansas Fuel Oil Company:

Mortgage Notes, maturing after one year	26,625.00	
Notes Payable to Banks, maturing after one year (Note 4)	2,775,000.00	2,801,625.00

Orange State Oil Company:

General Mortgage Notes, due 1945-1947 (\$66,000.00 due in 1945)	178,000.00	
		\$ 14,679,625.00

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME

For the Year Ended December 31, 1944

GROSS OPERATING REVENUE (after deducting allowances):

Crude and refined oils and accessories	\$ 43,464,929.66	
Natural gas	12,829,879.64	\$ 56,294,809.30

OPERATING AND OTHER EXPENSES:

Cost of sales, operating, selling, general and administrative expenses (including operations from merchandise sales and job work, and provision for bad debts)	38,445,245.87	
Maintenance and repairs	2,191,120.24	
Provision for depletion, depreciation and retirements (Note 6)	4,646,264.09	
Cancelled undeveloped lease and dry hole expenses	1,413,306.55	
Rents and royalties (exclusive of oil royalties)	958,891.57	
Taxes (other than income taxes)	2,190,735.44	49,845,563.76

NET OPERATING REVENUE	6,449,245.54
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OTHER INCOME:

Carrying charges collected on merchandise installment sales	2,325.22	
Interest	8,535.61	
Dividends	76,611.86	
Profit on leases sold	13,608.26	
Cash discounts	71,902.12	
Miscellaneous	16,709.13	189,692.20

GROSS INCOME	6,638,937.74
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INTEREST AND OTHER CHARGES:

Interest on funded debt (including purchase money obligations)	422,698.27	
Other interest	224,058.06	
Amortization of debt expense	13,483.06	
Miscellaneous income deductions	38,908.44	
Proportion of net income of subsidiary applicable to minority interests— Dividend paid on Arkansas Fuel Oil Company Preferred Stock	5,338.50	704,486.33

5,934,451.41

PROVISION FOR INCOME TAXES:

Federal income taxes (including \$822,580.00 excess profits tax, net of debt retirement credit)	2,338,673.77	
State income taxes	83,702.61	2,422,376.38

NET INCOME	\$ 3,512,075.03
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See pages Ten and Eleven for Notes.

STATEMENT OF CONSOLIDATED SURPLUS

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1943	\$41,270,904.91	\$22,406,832.28	\$3,955,385.07	\$14,908,687.56
Add: Net income for the year ended December 31, 1944	3,512,075.03	—	—	3,512,075.03
Excess accruals for federal and state income taxes for prior years (net)	543,382.41	—	—	543,382.41
	45,326,362.35	22,406,832.28	3,955,385.07	18,964,145.00
Less: Dividends paid on preferred stock— \$1.45 per share	3,171,999.70	—	—	3,171,999.70
BALANCE AT DECEMBER 31, 1944 (Notes 3, 4 and 5)	\$42,154,362.65	\$22,406,832.28	\$3,955,385.07	\$15,792,145.30

See pages Ten and Eleven for Notes.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1944

Note 1:

The Federal Power Commission has prescribed a uniform system of accounts for natural gas companies under its jurisdiction, effective January 1, 1940, which requires a study and restatement of gas plant of Arkansas Louisiana Gas Company, a consolidated subsidiary, to be made and completed by January 1, 1942 (extended to June 30, 1945). Until the necessary studies are completed, it is not known to what extent the accounts will be affected.

Note 2:

Inventories of crude and refined oils have been valued at cost, which is lower than aggregate market. Such cost for crude oil is on a last-in first-out annual basis and for refined oils on an average monthly basis. The cost of crude oil comprises purchases at cost and production at average gravity posted prices, plus gathering and transportation charges at tariff rates. Refined oils at refinery, wholesale terminals and bulk and service stations are priced at average cost, which, in the case of manufactured products, consists of crude oil cost as described above plus refinery costs and freight and handling and, in the case of purchased products, consists of cost plus freight and handling. The amount of inter-company profit included in crude and refined oil inventories cannot be readily ascertained.

Note 3:

Under the terms of the original and supplemental indentures securing the First Mortgage Bonds of Arkansas Louisiana Gas Company, a consolidated subsidiary, that company cannot, so long as any of the said bonds remain outstanding, make payment of interest or principal on the 4¼% Debenture (eliminated in consolidation), or declare and pay any dividends (except stock dividends) or make any other distribution on its capital stock to its parent, Arkansas Natural Gas Corporation, or make any cash advance or loan to any affiliates except out of earned surplus accumulated since August 31, 1939, after giving effect to any excess of depreciation charges computed as provided in the indenture over the amounts recorded on the books (no additional depreciation provision was necessary). The indentures further provide that no dividends may be paid or other distribution made unless immediately after such payments the Company has a certain definite current asset to current liability ratio. The restrictions thus imposed on consolidated earned surplus at December 31, 1944 aggregate \$3,636,269.04.

Note 4:

Under the terms of agreement in connection with notes payable to banks of \$3,675,000.00 certain restrictions are imposed on Arkansas Fuel Oil Company, a consolidated subsidiary, including restrictions in respect of payments of dividends and on amounts due any parent company if such payments reduce cash balances or net current assets below certain stipulated amounts. Payments made during the year complied with these restrictions.

Note 5:

Under the consent decree entered by the U. S. District Court on December 23, 1941, pipe line earnings of Arkansas Pipeline Corporation, a consolidated subsidiary, since January 1, 1942 in excess of 7 percent of a calculated Interstate Commerce Commission valuation are restricted as to distribution and use. The restrictions thus imposed on consolidated earned surplus at December 31, 1944 aggregate \$83,574.76.

Note 6:

The depreciation provided by the Companies is based on studies made by engineers and represents, substantially, the amount considered necessary by them to write off the undepreciated balance of the property, net of estimated salvage, during the remaining useful life, including allowances for replacements necessary during that period.

The provision made for depletion of producing oil and gas properties is determined on an overall basis by dividing the recoverable oil and gas reserves estimated by engineers into the undepleted cost of the producing properties, net of estimated salvage, plus the estimated future development cost on the said reserves. As a result of the contiguity of the Companies' oil and gas properties and the fact that the variation in costs between leases is in the average not material, the amount so provided on an overall basis is not materially different from the aggregate amount that would result from computations made on a lease basis.

No provision has been made to write off the excess cost of investments in securities of subsidiary companies over the equity in net assets at date of acquisition, which amount is included in capital assets.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1944

Note 7:

Under the applicable Federal Statute, the prices charged by the Company's consolidated subsidiaries for petroleum products under war contracts in the years 1942 to 1944, inclusive, are subject to renegotiation if excessive profits are considered to have occurred. At the date of this report, the government had requested and been furnished with certain information in respect of the transactions for the years 1942 and 1943. On the basis of information thus furnished for the year 1942, the Companies were advised by the Price Adjustment Board, Navy Department, that according to findings of the Board no excessive profits were realized by the Companies during the year ended December 31, 1942. As the Companies believe that no excessive profits within the meaning of the Renegotiation Act have been realized during the years 1943 and 1944, no reserves have been provided in the accounts for any such adjustments.

Note 8:

Under the Public Utility Holding Company Act of 1935, Section 11(b) (1), an order was issued by the Securities and Exchange Commission on May 5, 1944, requiring the Arkansas Natural Gas Corporation to sever its corporate relationship with all companies within the holding company system not directly engaged in the business of production, transmission and distribution of natural gas. This order of the Securities and Exchange Commission upon application of the Company is pending in review in the Fifth U. S. Circuit Court of Appeals. The effect of the above on the corporate structure of the Arkansas Natural Gas Corporation and its subsidiaries is at present unknown.

CONTINGENT LIABILITIES:

Under suits and claims pending—amount indeterminate. It is estimated by counsel for the Companies that the ultimate liability in respect of pending litigation and claims of substantial amount will be negligible.

ARKANSAS NATURAL

BALANCE

At December

ASSETS

INVESTMENTS:

Securities of subsidiary companies		\$ 59,907,660.11
Advances to subsidiary company		200,000.00
Investment in 50% owned company, at cost—		
Lisbon Gasoline Company, Inc., capital stock (approximate net worth		
applicable thereto per that company's financial statements—		
\$184,540.82)		169,039.00
Investments in other securities at nominal value		7.00
Miscellaneous investments—plant, etc., at book value	\$ 319,324.12	
Less: Reserve for depreciation and retirements	129,596.96	189,727.16
		<u>60,466,433.27</u>

CURRENT ASSETS:

Cash in banks and on hand	188,353.89	
U. S. Treasury Tax Savings Notes, Series C, at cost	85,000.00	
Current accounts with subsidiary companies	327.22	
Interest receivable on Arkansas Louisiana Gas Company Debenture	92,083.34	
Other interest receivable	42.50	365,806.95

OTHER ASSETS:

Miscellaneous special funds	425.00	
Notes and accounts receivable (less reserve \$214.53)	250.00	675.00

\$ 60,832,915.22

GAS CORPORATION

SHEET

r 31, 1944

CAPITAL AND LIABILITIES

CAPITAL STOCK:

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,748 shares, less in treasury 3,162	
shares; outstanding 2,187,586 shares	\$ 21,875,860.00

Common—no par value:

Authorized 4,084,225 shares; issued 4,083,878 shares, less in treasury 3,277	
shares; outstanding 4,080,601 shares—stated at	4,080,601.00

Class A Common (non-voting)—no par value:

Authorized 4,000,000 shares; issued 3,522,521 1/4 shares, less in treasury 250	
shares; outstanding 3,522,271 1/4 shares—stated at	3,522,271.25

Reserve to provide for exchange of stock of predecessor company

(340.49 shares of preferred stock at \$10 per share and 347 shares of common	
stock at \$1 per share)	3,751.90
	<u>\$ 29,482,484.15</u>

CURRENT LIABILITIES:

Accounts payable	\$ 18,607.12	
Current accounts with subsidiary companies	330.69	
Current account with mutual service company	1,460.25	
Accrued taxes and other charges	44,420.57	
Provision for federal income taxes (subject to final determination by U. S.		
Treasury Department)	<u>321,142.55</u>	385,961.18

SURPLUS:

Capital surplus	22,406,832.28	
Earned surplus of merged companies at date of merger	3,955,385.07	
*Earned surplus	<u>4,602,252.54</u>	30,964,469.89
		<u><u>\$ 60,832,915.22</u></u>

Preferred stock dividends unpaid amount to \$.60 per share or \$1,312,551.60.

CONTINGENT LIABILITIES:

Under suits and claims pending—amount indeterminate.

ARKANSAS NATURAL GAS CORPORATION

Statements of Income and Surplus For the Year Ended December 31, 1944

STATEMENT OF INCOME

GROSS INCOME:

Interest on indebtedness of subsidiary company	\$ 8,000.00	
Interest on Arkansas Louisiana Gas Company debenture	276,250.00	
Other interest	262.50	
Dividends from subsidiary companies	2,993,607.10	
Dividends—other	72,000.00	
Pipe line rental from subsidiary company	66,000.00	
Miscellaneous	351.63	\$ 3,416,471.23

EXPENSES:

Interest	82.79	
General and administrative expenses, etc.	58,564.13	
Provision for depreciation and retirements of plant	19,766.21	
Taxes (exclusive of income taxes)	46,441.72	124,854.85
		<u>3,291,616.38</u>

PROVISION FOR FEDERAL INCOME TAXES: (proportion of consolidated income and excess profits taxes)	264,203.00
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NET INCOME	<u>\$ 3,027,413.38</u>
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STATEMENT OF SURPLUS

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1943	\$31,079,643.04	\$22,406,832.28	\$3,955,385.07	\$4,717,425.69
Add: Net income for the year ended December 31, 1944	3,027,413.38	—	—	3,027,413.38
Excess accruals for federal income taxes for prior years	29,413.17	—	—	29,413.17
	<u>34,136,469.59</u>	<u>22,406,832.28</u>	<u>3,955,385.07</u>	<u>7,774,252.24</u>
Less: Dividends paid on preferred stock—\$1.45 per share	3,171,999.70	—	—	3,171,999.70
BALANCE AT DECEMBER 31, 1944	<u>\$30,964,469.89</u>	<u>\$22,406,832.28</u>	<u>\$3,955,385.07</u>	<u>\$4,602,252.54</u>

ARKANSAS NATURAL GAS CORPORATION

Incorporated under the Laws of the State of Delaware, U. S. A.

Shreveport, Louisiana

BOARD OF DIRECTORS

PAUL G. BENEDUM	HOUSTON, TEX.
ADDISON B. DALLY, JR.	PITTSBURGH, PA.
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JOHN M. McMILLIN	NEW YORK, N. Y.
JOHN R. MUNCE	SARASOTA, FLA.
HENRY L. O'BRIEN	NEW YORK, N. Y.
GEORGE H. SHAW	NEW YORK, N. Y.
HENRY C. WALKER, JR.	SHREVEPORT, LA.
BURL S. WATSON	NEW YORK, N. Y.
JOHN O. WICKS	PITTSBURGH, PA.
FRANK A. WILLISON	PITTSBURGH, PA.

OFFICERS

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JOHN R. MUNCE	Vice-President
THOMAS J. HEARD	Secretary
BRIAN R. MUIRHEAD	Treasurer
JOSEPH T. GRIFFITH	Assistant Secretary
J. CARROLL HAMILTON	Assistant Secretary
EDGAR E. McWHINEY	Assistant Secretary
ERLE G. CHRISTIAN	Assistant Treasurer
HAROLD G. WALTERS	Assistant Treasurer

AUDITORS

ARTHUR YOUNG & COMPANY

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Arkansas Natural Gas Corporation

Annual Report
to Stockholders

Year Ended
December 31, 1943

The annual meeting of stockholders of the Corporation will be held on October 19, 1944, at Dover, Delaware. It is expected that proxies for that meeting will be requested by the Management and that the notice of meeting, proxy statement and form of proxy will be mailed to stockholders on or about September 22, 1944. This Annual Report containing financial statements is not and must not be considered as proxy soliciting material or as a report or document filed pursuant to the Securities Exchange Act or any rule or regulation thereunder.

This Annual Report is submitted for the general information of the stockholders of the Corporation and is not intended to induce, or for use in connection with, any sale or purchase of securities.

ARKANSAS NATURAL GAS CORPORATION

Annual Report

To the Stockholders:

The Annual Report of your Corporation for the calendar year 1943 is submitted herewith. Included are Financial Statements of the Corporation and Consolidated Financial Statements of the Corporation and Subsidiaries, as reported upon by Messrs. Arthur Young & Company, Accountants and Auditors.

Earnings: Consolidated Gross Operating Revenue for 1943 was \$47,585,097, as compared with \$41,378,116 for 1942. Consolidated Net Income for 1943 was \$2,813,670, as compared with \$3,181,195 for 1942.

The Gross Income of the Corporation for 1943 was \$2,774,291 as compared with \$2,179,144 for 1942 and the Net Income for 1943 was \$2,408,130 as compared with \$1,897,590 for 1942.

Financial: Consolidated Current Assets at December 31, 1943 were \$18,003,187 including \$8,429,988 of cash, as compared with Consolidated Current Assets of \$14,506,536, including \$4,461,832 of cash, at December 31, 1942. Consolidated Current Liabilities were \$9,687,043 at December 31, 1943 as compared with Consolidated Current Liabilities of \$8,159,688 at December 31, 1942.

Consolidated Funded and Other Long Term Debt at the end of 1943 was \$16,400,250 as compared with \$16,121,375 at the close of the previous year.

Arkansas Louisiana Gas Company increased its funded debt \$1,250,000 during the year by issuing \$500,000 First Mortgage Bonds, 2 1/2% Series C due 1945-1947 and \$1,500,000 First Mortgage Bonds, 3 1/4% Series D due 1948-1953 and retiring \$750,000 First Mortgage Bonds, 2 3/4% Series A, which were due in 1943. The proceeds from the new issues were used principally for property additions including the purchase of Consumers Gas Company for a consideration of \$800,000. The properties acquired through this purchase consisted of a gas distribution plant serving 6,141 customers in the city of Hot Springs, Arkansas. The Consumers Gas Company was dissolved at the date of acquisition (September 15, 1943) and the business included in the company's distribution operations thereafter.

Arkansas Fuel Oil Company reduced its funded and other long term debt from \$4,611,375 to \$3,706,250 during the year.

Orange State Oil Company reduced its funded and other long term debt from \$310,000 to \$244,000.

Arkansas Natural Gas Corporation had no notes or loans outstanding at December 31, 1943.

Subsidiary Companies' Operations: Crude oil production in 1943 amounted to 5,377,366 net barrels compared with 5,369,325 net barrels in 1942. The average price per barrel received during 1943 was \$1.18 compared with an average price of \$1.17 in 1942.

Crude oil run to refinery was 7,290,624 barrels in 1943, compared with 7,855,540 barrels in 1942. Total gasoline produced in 1943 was 3,032,107 barrels compared with 3,482,824 barrels in 1942. Refined petroleum products sold during the year 1943 amounted to 373,876,251 gallons, compared with 359,902,419 gallons sold in 1942.

The oil pipe lines transported 8,413,261 barrels of oil in 1943 compared with 10,002,112 in 1942.

The production of natural gasoline was 19,042,283 gallons and the average sales price for this product during the year was \$.0453 per gallon compared with 14,795,511 gallons produced and an average sales price of \$.0334 per gallon in 1942. The production of other natural gasoline plant

products during the year amounted to 35,864,959 gallons compared with 22,298,528 gallons in 1942, and the average sales price for these products was \$.035 per gallon in 1943 compared with \$.0328 per gallon in 1942.

Natural gas sales amounted to 82.3 billion cubic feet in 1943 as compared with 52.1 billion cubic feet in 1942. The number of customers at the end of 1943 was 118,691 as compared with 107,870 at the close of the previous year. Natural gas sales for year 1943 include 25.2 billion cubic feet supplied to war plants and military camps as compared to 3.5 billion cubic feet in 1942.

Construction: Combined total construction expenditures amounted to \$4,121,000 for the year and included \$612,000 for oil well drilling and equipment; \$381,000 for drilling gas wells; \$800,000 for Hot Springs, Arkansas distribution properties; \$777,000 for natural gas pipe lines, compressor stations and distribution facilities; \$705,000 for oil and gas leases; \$686,000 for natural gasoline plants and plant equipment; \$70,000 for marketing facilities; \$46,000 for refinery plant equipment and \$44,000 for numerous small projects and equipment.

Arkansas Fuel Oil Company drilled and completed two oil wells in the states of Arkansas and Texas and through unitizing acreage in the Dorcheat, Arkansas Field on which the Company owned one well, it acquired a substantial interest in an additional 20 wells, a number of which produce both oil and gas; completed the construction of a gas cleaning plant in sour gas fields in Southern Arkansas to remove undesirable elements from gas used in supplying war plants; completed facilities in Columbia County, Arkansas to recover liquid hydrocarbons, components of high octane gasoline and butadiene and began the construction of a natural gasoline absorption plant near Carthage, Texas.

Arkansas Louisiana Gas Company drilled and completed 3 gas wells and acquired substantial interest in 1 additional well in the states of Arkansas and Louisiana, increased its transmission and field lines 7.89 miles and distribution lines 41.32 miles, including mains to serve various defense plants and acquired a gas distribution plant serving the city of Hot Springs, Arkansas.

War Activities: Being engaged in the essential industries of producing and distributing petroleum products and natural gas, the Corporation and its Subsidiaries have continued to render important services in the war effort. Full cooperation is being given to government agencies by our Companies and personnel toward the successful prosecution of the war. Over 713 employees of our Companies have entered the armed forces and many employees are actively engaged in civilian defense work.

Public Utility Holding Company Act: In the proceedings under Section 11(b)(1) of the Public Utility Holding Company Act of 1935 instituted by the Securities and Exchange Commission with respect to Cities Service Company and its Subsidiaries, involving the relation of the Corporation and its Subsidiaries to Cities Service Company and of the Corporation to its Subsidiaries, testimony has been completed and the matter submitted to the Commission for decision.

Your Board wishes to express its grateful acknowledgement and appreciation of the loyalty and cooperation of the employees of the Corporation and its Subsidiaries.

Respectfully submitted,

BOARD OF DIRECTORS,

BY: DAVID W. HARRIS,

Vice President and General Manager.

April 19, 1944.

ARTHUR YOUNG & COMPANY

Accountants and Auditors

1 Cedar Street
New York 5, N. Y.

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Arkansas Natural Gas Corporation:

We have examined the balance sheet of Arkansas Natural Gas Corporation, the consolidated balance sheet of Arkansas Natural Gas Corporation and its subsidiaries at December 31, 1943 and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. It was not practicable to confirm receivables from agencies of the U. S. Government, as to the substantial accuracy of which we satisfied ourselves by other means. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheets and statements of income and surplus present fairly the position of Arkansas Natural Gas Corporation and the position of Arkansas Natural Gas Corporation and its subsidiaries at December 31, 1943, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.,
March 6, 1944.

ARKANSAS NATURAL GAS CORPORATION

CONSOLIDATED

At December 31, 1954

ASSETS

CAPITAL ASSETS:

Leaseholds, oil and gas producing properties, storage facilities, pipe lines, refineries, service stations, distribution system, etc., including intangibles (amount undetermined) at book value (Note 1)	\$101,693,292.55	
Less: Reserves for depletion, depreciation and retirements	33,920,140.56	\$ 67,773,151.99
Excess of investment in securities of subsidiary companies herein consolidated over equity in net assets thereof at dates of acquisition		13,012,302.93
Investments—		
In 50% owned company, at cost—		
Lisbon Gasoline Company, Inc., capital stock (approximate net worth applicable thereto per that company's financial statements—\$175,993.50)	169,039.00	
In capital stocks of mutual service companies, at cost	65,000.00	
Miscellaneous investments, at or below cost, less reserve \$25,000.00	168,423.82	
Cash surrender value of life insurance policies	33,325.60	435,788.42
		81,221,243.34

CURRENT ASSETS:

Cash in banks and on hand	8,429,987.91	
U. S. Treasury Bonds, at cost	25,000.00	
Customers' accounts receivable, including unbilled gas revenue, less reserve \$361,716.44	2,579,389.28	
Merchandise accounts receivable, less deferred carrying charges \$2,358.61 and reserve \$5,756.80	30,897.16	
Due from agencies of U. S. Government	1,410,745.20	
Current accounts with affiliated companies	195,958.59	
Miscellaneous accounts and notes receivable, less reserve \$20,000.00	400,438.16	
Crude and refined oils, at cost (Note 2)	3,194,062.34	
Accessories and merchandise for resale, at or below cost	163,371.84	
Materials (including construction materials) and supplies, at or below average cost	1,264,458.84	
Prepaid insurance, rentals and other expenses	308,877.50	18,003,186.82

OTHER ASSETS:

Post-war refund of excess profits tax	191,651.28	
Special cash deposits	32,202.65	
Accounts and notes receivable—not current, less reserve \$136,406.17	55,933.95	
Unliquidated proceeds of leases sold, recoverable solely out of future production, less reserve \$100,000.00	\$123,993.86	
Less: Reserve for unearned income	94,194.51	29,799.35
Advances to personnel	1,169.00	310,756.23

DEFERRED CHARGES:

Unamortized debt expense	85,462.28	
Other deferred charges and miscellaneous unadjusted debits	97,866.31	183,328.59

\$ 99,718,514.98

See pages Eight, Ten and Eleven for Schedules and Notes.

ATION AND SUBSIDIARY COMPANIES

BALANCE SHEET

er 31, 1943

CAPITAL AND LIABILITIES

CAPITAL STOCK OF ARKANSAS NATURAL GAS CORPORATION, per schedule attached:

Preferred stock	\$ 21,875,860.00
Common stock	4,080,601.00
Class A Common stock	3,522,271.25
Reserve to provide for exchange of stock of predecessor company	3,751.90
	<u>29,482,484.15</u>

MINORITY INTEREST IN SUBSIDIARY:

Arkansas Fuel Oil Company—	
Preferred 6% Cumulative—8,897½ shares of a par value of \$10 each	88,975.00

FUNDED AND OTHER LONG TERM DEBT:

Subsidiary companies, per schedule attached—	
First mortgage bonds (\$750,000.00 due in 1944) (Note 3)	\$ 12,450,000.00
General mortgage notes (\$66,000.00 due in 1944)	244,000.00
Mortgage notes, maturing after one year	31,250.00
Notes payable to banks, maturing after one year (Note 4)	3,675,000.00
	<u>16,400,250.00</u>

LIABILITY TO STOCKHOLDERS OF LOUISIANA OIL REFINING CORPORATION, payable in preferred stock or cash of Arkansas Fuel Oil Company

27,958.75

CURRENT LIABILITIES (exclusive of \$816,000.00 for 1944 requirements in respect of funded debt):

Notes payable—	
Banks (Note 4)	900,000.00
Purchase money obligations	5,125.00
	<u>905,125.00</u>
Accounts payable	3,104,529.04
Current accounts with affiliated and mutual service companies	122,669.71
Accrued interest on funded and other long term debt	134,975.21
Accrued interest, taxes and other charges	1,069,111.50
Customers' deposits	897,710.14
Provision for federal income taxes (subject to final determination by U. S. Treasury Department)	3,452,922.63
	<u>9,687,043.23</u>

OTHER LIABILITIES:

Drilling and lease costs payable out of future production (\$7,277.50 thereof secured by mortgage on wells)	263,171.13
Advances for line extensions (including \$2,070,119.43 from agencies of U. S. Government)	2,200,921.63
Miscellaneous accounts	370.64
	<u>2,464,463.40</u>

RESERVES:

Contributions for extensions—not refundable	296,435.54
---	------------

SURPLUS:

Capital surplus	22,406,832.28
Earned surplus of merged companies at date of merger	3,955,385.07
Earned surplus (Notes 3, 4 and 5)	14,908,687.56
	<u>41,270,904.91</u>
	<u>\$ 99,718,514.98</u>

Preferred stock dividends unpaid amount to \$1.45 per share or \$3,171,999.70.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES
SCHEDULES TO CONSOLIDATED BALANCE SHEET
At December 31, 1943

Capital Stock of Arkansas Natural Gas Corporation

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,748 shares, less in treasury 3,162 shares; outstanding 2,187,586 shares	\$ 21,875,860.00
---	------------------

Common—no par value:

Authorized 4,084,225 shares; issued 4,083,878 shares, less in treasury 3,277 shares; outstanding 4,080,601 shares—stated at	4,080,601.00
---	--------------

Class A Common—no par value:

Authorized 4,000,000 shares; issued 3,522,521 ¹ / ₄ shares, less in treasury 250 shares; outstanding 3,522,271 ¹ / ₄ shares—stated at	3,522,271.25
---	--------------

Reserve to provide for exchange of stock of predecessor company

(340.49 shares of preferred stock at \$10 per share and 347 shares of common stock at \$1 per share)	3,751.90
	\$ 29,482,484.15

Funded and Other Long Term Debt of Subsidiary Companies

Arkansas Louisiana Gas Company:

First Mortgage Bonds—(Note 3)		
2 ³ / ₄ % Series A, due 1944	\$ 750,000.00	
3 ¹ / ₂ % Series B, due 1945-1954	9,700,000.00	
2 ¹ / ₂ % Series C, due 1945-1947	500,000.00	
3 ¹ / ₄ % Series D, due 1948-1953	1,500,000.00	\$ 12,450,000.00

Arkansas Fuel Oil Company:

Mortgage Notes, maturing after one year	31,250.00	
Notes Payable to Banks, maturing after one year (Note 4)	3,675,000.00	3,706,250.00

Orange State Oil Company:

General Mortgage Notes, due 1944-1947 (\$66,000.00 due in 1944)	244,000.00
	\$ 16,400,250.00

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES
STATEMENT OF CONSOLIDATED INCOME
For the Year Ended December 31, 1943

GROSS OPERATING REVENUE (after deducting allowances):				
Crude and refined oils and accessories		\$ 36,032,910.30		
Natural gas		11,552,187.04		\$ 47,585,097.34
OPERATING AND OTHER EXPENSES:				
Cost of sales, operating, selling, general and administrative expenses (including operations from merchandise sales and job work, and provision for bad debts)		31,158,390.54		
Maintenance and repairs		1,777,289.52		
Provision for depletion, depreciation and retirements (Note 6)		4,588,155.13		
Cancelled undeveloped lease and dry hole expenses		730,043.22		
Rents and royalties (exclusive of oil royalties)		855,114.45		
Taxes (other than income taxes)		2,101,585.54		41,210,578.40
NET OPERATING REVENUE				6,374,518.94
OTHER INCOME:				
Carrying charges collected on merchandise installment sales		11,285.38		
Interest		9,973.73		
Dividends		89,552.00		
Profit on leases sold		12,730.29		
Cash discounts		63,513.64		
Miscellaneous		46,190.16		233,245.20
GROSS INCOME				6,607,764.14
INTEREST AND OTHER CHARGES:				
Interest on funded debt (including purchase money obligations)		402,395.68		
Other interest		291,836.27		
Amortization of debt expense		13,442.35		
Miscellaneous income deductions		29,959.13		
Proportion of net income of subsidiary applicable to minority interests— Dividend paid on Arkansas Fuel Oil Company Preferred Stock		5,923.50		743,556.93
				5,864,207.21
PROVISION FOR INCOME TAXES:				
Federal income taxes (including \$1,916,512.82 excess profits tax less \$191,- 651.28 post war refund)		3,005,508.87		
State income taxes		45,028.74		3,050,537.61
NET INCOME				\$ 2,813,669.60

See pages Ten and Eleven for Notes.

STATEMENT OF CONSOLIDATED SURPLUS

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1942	\$40,732,326.02	\$22,406,832.28	\$3,955,385.07	\$14,370,108.67
Add: Net income for year ended December 31, 1943	2,813,669.60	—	—	2,813,669.60
Excess accruals for Federal and State income taxes for prior years (Net) . .	223,582.89	—	—	223,582.89
	43,769,578.51	22,406,832.28	3,955,385.07	17,407,361.16
Less: Reserve created at the request of Secur- ities and Exchange Commission for excess of purchase price of proper- ties acquired in 1943 over estimated original cost of these properties . .	92,329.00	—	—	92,329.00
Dividends paid on Preferred Stock— \$1.10 per share	2,406,344.60	—	—	2,406,344.60
	2,498,673.60	—	—	2,498,673.60
BALANCE AT DECEMBER 31, 1943 (Notes 3, 4 & 5)	\$41,270,904.91	\$22,406,832.28	\$3,955,385.07	\$14,908,687.56

See pages Ten and Eleven for Notes.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1943

Note 1:

The Federal Power Commission has prescribed a uniform system of accounts for natural gas companies under its jurisdiction, effective January 1, 1940, which requires a study and restatement of gas plant of Arkansas Louisiana Gas Company, a consolidated subsidiary, to be made and completed by January 1, 1942 (extended to June 30, 1944). Until the necessary studies are completed, it is not known to what extent the accounts will be affected.

Note 2:

Inventories of crude and refined oils have been valued at cost, which is lower than aggregate market. Such cost for crude oil is on a last-in first-out annual basis and for refined oils on an average monthly basis. The cost of crude oil comprises purchases and production at average gravity posted prices, plus gathering and transportation charges at tariff rates. Refined oils at refinery, wholesale terminals and bulk and service stations are priced at average cost, which, in the case of manufactured products, consists of crude oil cost as described above plus refinery costs and freight and handling and, in the case of purchased products, consists of cost plus freight and handling. The amount of inter-company profit included in crude and refined oil inventories cannot be readily ascertained.

Note 3:

Under the terms of the original and supplemental indentures securing the First Mortgage Bonds of Arkansas Louisiana Gas Company, a consolidated subsidiary, that company cannot, so long as any of the said bonds remain outstanding, make payment of interest or principal on the 4 1/4 % Debenture (eliminated in consolidation), or declare and pay any dividends (except stock dividends) or make any other distribution on its capital stock to its parent, Arkansas Natural Gas Corporation, or make any cash advance or loan to any affiliates except out of earned surplus accumulated since August 31, 1939, after giving effect to any excess of depreciation charges computed as provided in the indenture over the amounts recorded on the books (no additional depreciation provision was necessary). The indentures further provide that no dividends may be paid or other distribution made unless immediately after such payments the Company has a certain definite current asset to current liability ratio. The restrictions thus imposed on consolidated earned surplus at December 31, 1943 aggregate \$3,636,269.04.

Note 4:

Under the terms of agreement in connection with notes payable to banks of \$4,575,000.00 certain restrictions are imposed on Arkansas Fuel Oil Company, a consolidated subsidiary, including restrictions in respect of payments of dividends and on amounts due any parent company if such payments reduce cash balances or net current assets below certain stipulated amounts. Payments made during the year complied with these restrictions.

Note 5:

Under the consent decree entered by the U. S. District Court on December 23, 1941, pipe line earnings of Arkansas Pipeline Corporation, a consolidated subsidiary, since January 1, 1942 in excess of 7 percent of a calculated Interstate Commerce Commission valuation are restricted as to distribution and use. The restrictions thus imposed on consolidated earned surplus at December 31, 1943 aggregate \$83,574.76.

Note 6:

The depreciation provided by the Companies is based on studies made by engineers and represents, substantially, the amount considered necessary by them to write off the undepreciated balance of the property, net of estimated salvage, during its remaining useful life, including allowances for replacements necessary during that period.

The provision made for depletion of producing oil and gas properties is determined on an overall basis by dividing the recoverable oil and gas reserves estimated by engineers into the undepleted cost of the producing properties, net of estimated salvage, plus the estimated future development cost on the said reserves. As a result of the contiguity of the Companies' oil and gas properties and the fact that the variation in costs between leases is in the average not material, the amount so provided on an overall basis is not materially different from the aggregate amount that would result from computations made on a lease basis.

No provision has been made to write off the excess cost of investments in securities of subsidiary companies over the equity in net assets at date of acquisition, which amount is included in capital assets.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

At December 31, 1943

Note 7:

Under the applicable Federal Statute, the prices charged by the Company's consolidated subsidiaries for petroleum products under war contracts in the years 1942 and 1943 are subject to renegotiation if excessive profits are considered to have occurred. At the date of this report, the government had requested and been furnished with certain information in respect of the transactions for the year 1942. As the Companies believe that no excessive profits within the meaning of the Renegotiation Act have been realized during the years 1942 and 1943, no reserves have been provided in the accounts for any such adjustments.

Contingent Liabilities:

Under suits and claims pending—amount indeterminate. It is estimated by counsel for the Companies that the ultimate liability in respect of pending litigation and claims of substantial amount will be negligible.

Dividends aggregating \$4.20 per share have been declared payable to stockholders of Louisiana Oil Refining Corporation, who may become holders of the preferred stock of Arkansas Fuel Oil Company, a consolidated subsidiary, by reason of the surrender and exchange of their stock in Louisiana Oil Refining Corporation. The maximum amount involved at December 31, 1943 is \$2,782.50.

ARKANSAS NATURAL GAS

BALANCE SHEET

At December 31, 1964

ASSETS

INVESTMENTS:

Securities of subsidiary companies		\$ 59,907,660.11
Advances to subsidiary company		200,000.00
Investment in 50% owned company, at cost—		
Lisbon Gasoline Company, Inc., capital stock (approximate net worth applicable thereto per that company's financial statements—\$175,993.50)		169,039.00
Investments in other securities at nominal value		7.00
Miscellaneous investments—plant, etc., at book value	\$ 319,100.64	
Less: Reserve for depreciation and retirements	109,924.95	209,175.69
		<u>60,485,881.80</u>

CURRENT ASSETS:

Cash in banks and on hand	282,258.86	
Current accounts with subsidiary companies	222.22	
Interest receivable on Arkansas Louisiana Gas Company Debenture	<u>92,083.34</u>	374,564.42

OTHER ASSETS:

Miscellaneous special funds	425.00	
Notes and accounts receivable (less reserve \$366.98)	<u>250.00</u>	675.00

\$ 60,861,121.22

GAS CORPORATION

SHEET

er 31, 1943

CAPITAL AND LIABILITIES

CAPITAL STOCK:

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,748 shares, less in treasury 3,162	
shares; outstanding 2,187,586 shares	\$ 21,875,860.00

Common—no par value:

Authorized 4,084,225 shares; issued 4,083,878 shares, less in treasury 3,277	
shares; outstanding 4,080,601 shares—stated at	4,080,601.00

Class A Common—no par value:

Authorized 4,000,000 shares; issued 3,522,521 $\frac{1}{4}$ shares, less in treasury 250	
shares; outstanding 3,522,271 $\frac{1}{4}$ shares—stated at	3,522,271.25

Reserve to provide for exchange of stock of predecessor company

(340.49 shares of preferred stock at \$10.00 per share and 347 shares of	
common stock at \$1.00 per share)	3,751.90
	29,482,484.15

CURRENT LIABILITIES:

Accounts payable	\$ 15,261.70	
Current accounts with subsidiary companies	411.88	
Current account with mutual service company	1,057.93	
Accrued taxes and other charges	44,046.81	
Provision for federal income taxes (subject to final determination by U. S.		
Treasury Department)	238,215.71	298,994.03

SURPLUS:

Capital surplus	22,406,832.28	
Earned surplus of merged companies at date of merger	3,955,385.07	
Earned surplus	4,717,425.69	31,079,643.04
		\$ 60,861,121.22

Preferred stock dividends unpaid amount to \$1.45 per share or \$3,171,999.70.

CONTINGENT LIABILITIES:

Under suits and claims pending—amount indeterminate.

ARKANSAS NATURAL GAS CORPORATION

Statements of Income and Surplus For the Year Ended December 31, 1943

STATEMENT OF INCOME

GROSS INCOME:

Interest on indebtedness of subsidiary company	\$ 8,000.00	
Interest on Arkansas Louisiana Gas Company debenture	276,250.00	
Other interest	1,198.83	
Dividends from subsidiary companies	2,335,584.55	
Dividends—other	87,000.00	
Pipe line rental from subsidiary company	66,000.00	
Miscellaneous	258.13	\$ 2,774,291.51

EXPENSES:

Interest	277.88	
General and administrative expenses, etc.	58,145.27	
Provision for depreciation and retirements of plant.	19,766.21	
Taxes (exclusive of income taxes)	43,748.84	121,938.20
		<u>2,652,353.31</u>

PROVISION FOR FEDERAL INCOME TAXES: (proportion of consolidated
income and excess profits taxes)

244,223.00

NET INCOME \$ 2,408,130.31

STATEMENT OF SURPLUS

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1942	\$31,077,857.33	\$22,406,832.28	\$3,955,385.07	\$4,715,639.98
Add:				
Net Income for year ended December 31, 1943	2,408,130.31	—	—	2,408,130.31
	<u>33,485,987.64</u>	<u>22,406,832.28</u>	<u>3,955,385.07</u>	<u>7,123,770.29</u>
Less:				
Dividends paid on Preferred Stock—\$1.10 per share	2,406,344.60	—	—	2,406,344.60
BALANCE AT DECEMBER 31, 1943	<u>\$31,079,643.04</u>	<u>\$22,406,832.28</u>	<u>\$3,955,385.07</u>	<u>\$4,717,425.69</u>

ARKANSAS NATURAL GAS CORPORATION

Incorporated under the Laws of the State of Delaware, U. S. A.

Shreveport, Louisiana

BOARD OF DIRECTORS

PAUL G. BENEDUM	HOUSTON, TEX.
ADDISON B. DALLY, JR.	PITTSBURGH, PA.
HARRY D. HANCOCK	NEW YORK, N. Y.
DAVID W. HARRIS	SHREVEPORT, LA.
JOHN M. McMILLIN	NEW YORK, N. Y.
JOHN R. MUNCE	SARASOTA, FLA.
HENRY L. O'BRIEN	NEW YORK, N. Y.
GEORGE H. SHAW	NEW YORK, N. Y.
HENRY C. WALKER, JR.	SHREVEPORT, LA.
BURL S. WATSON	NEW YORK, N. Y.
JOHN O. WICKS	PITTSBURGH, PA.
FRANK A. WILLISON	PITTSBURGH, PA.

OFFICERS

DAVID W. HARRIS

Vice-President and General Manager

JOHN R. MUNCE	<i>Vice-President</i>
THOMAS J. HEARD	<i>Secretary</i>
BRIAN R. MUIRHEAD	<i>Treasurer</i>
JOSEPH T. GRIFFITH	<i>Assistant Secretary</i>
J. CARROLL HAMILTON	<i>Assistant Secretary</i>
EDGAR E. McWHINEY	<i>Assistant Secretary</i>
ERLE G. CHRISTIAN	<i>Assistant Treasurer</i>
HAROLD G. WALTERS	<i>Assistant Treasurer</i>

AUDITORS

ARTHUR YOUNG & COMPANY

PRINTED IN U. S. A.

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Arkansas Natural Gas Corporation

Annual Report
to Stockholders

Year Ended
December 31, 1942

The annual meeting of stockholders of the Corporation will be held on October 21, 1943, at Dover, Delaware. It is expected that proxies for that meeting will be requested by the Management and that the notice of meeting, proxy statement and form of proxy will be mailed to stockholders on or about September 24, 1943. This Annual Report containing financial statements is not and must not be considered as proxy soliciting material or as a report or document filed pursuant to the Securities Exchange Act or any rule or regulation thereunder.

This Annual Report is submitted for the general information of the stockholders of the Corporation and is not intended to induce, or for use in connection with, any sale or purchase of securities.

ARKANSAS NATURAL GAS CORPORATION

Annual Report

To the Stockholders:

The Annual Report of your Corporation for the calendar year 1942 is submitted herewith. Included are financial statements of the Corporation and consolidated financial statements of the Corporation and Subsidiaries, as reported upon by Messrs. Arthur Young & Company, Accountants and Auditors.

Earnings: Consolidated Gross Operating Revenue for 1942 was \$41,378,116 as compared with \$37,897,924 for 1941. Consolidated Net Income for 1942 was \$3,181,195 as compared with \$2,954,209 for 1941.

The Gross Income of the Corporation for 1942 was \$2,179,144 as compared with \$3,316,498 for 1941 and the Net Income for 1942 was \$1,897,590 as compared with \$2,942,767 for 1941.

Financial: Consolidated Current Assets at December 31, 1942 were \$14,506,536 including \$4,461,832 of cash, as compared with Consolidated Current Assets of \$15,153,476, including \$5,084,130 of cash, at December 31, 1941. Consolidated Current Liabilities were \$8,159,688 at December 31, 1942 as compared with Consolidated Current Liabilities of \$8,896,822 at December 31, 1941.

Consolidated Funded and Other Long Term Debt at the end of 1942 was \$16,121,375 as compared with \$16,541,386 at the close of the previous year.

The funded debt of Arkansas Louisiana Gas Company decreased \$600,000 by the payment of that amount due in 1942 on its first mortgage bonds.

Arkansas Fuel Oil Company issued \$6,000,000 of its 3% notes payable, maturing at the rate of \$75,000 per month with the final maturity on June 1, 1947. The proceeds were used to refund indebtedness, to finance the construction of a gasoline and gas cleaning plant and to provide additional working capital. The funded and other long term debt of the company increased from \$4,339,486 to \$4,611,375 during the year.

Orange State Oil Company reduced its funded and other long term debt from \$401,900 to \$310,000. Arkansas Natural Gas Corporation had no notes or loans outstanding at December 31, 1942.

Subsidiary Companies' Operations: Crude oil production in 1942 amounted to 5,369,325 net barrels, compared with 5,427,146 net barrels in 1941. The average price per barrel received during 1942 was \$1.17 compared with an average price of \$1.12 in 1941.

Crude oil run to refinery was 7,855,540 barrels in 1942, compared with 9,334,848 barrels in 1941. Total gasoline produced in 1942 was 3,482,824 barrels, compared with 4,405,718 barrels in 1941. Refined petroleum products sold during the year 1942 amounted to 359,902,419 gallons, compared with 404,902,115 gallons sold in 1941.

The oil pipe lines transported 10,002,112 barrels of oil in 1942, compared with 9,563,205 barrels in 1941.

Total production of natural gasoline was 14,795,511 gallons and the average sales price for this product during the year was \$.0334 per gallon. The production of other natural gasoline plant products was 22,298,528 gallons and the average sales price for these products was \$.0328 per gallon.

Natural gas sales amounted to 52.1 billion cubic feet in 1942 as compared with 44.5 billion cubic feet in 1941. The number of customers at the end of 1942 was 107,870 as compared with 100,954 at the close of the previous year.

Construction: Combined total construction expenditures amounted to \$7,209,000 for the year and included \$1,048,000 for oil well drilling and equipment; \$273,000 for drilling gas wells; \$3,931,000 for natural gas pipelines, compressor stations and distribution facilities; \$384,000 for oil and gas leases; \$1,302,000 for natural gasoline plants and plant equipment; \$99,000 for marketing facilities; \$106,000 for refinery plant equipment and \$66,000 for numerous small projects and equipment.

Arkansas Fuel Oil Company drilled and completed 17 oil wells and 1 gas well in the states of Arkansas, Louisiana and Texas, including 5 part interest oil wells; increased the capacity of one of its gasoline plants and began the construction of another. Arkansas Louisiana Gas Company drilled and completed 4 gas wells and acquired substantial interest in 3 additional wells in the states of Arkansas, Louisiana and Texas; increased its transmission and field lines 210 miles and distribution lines 54 miles, including distribution lines to serve gas in the town of New Boston, Texas, and mains to serve defense plants in the states of Arkansas, Louisiana and Texas.

War Activities: Being engaged in the essential industries of producing and distributing petroleum products and natural gas, the Corporation and its subsidiaries are rendering important services in the war effort. Full cooperation is being given to government agencies by our companies and personnel toward the successful prosecution of the war.

Over 600 employees of our companies have entered the armed forces and many employees are actively engaged in civilian defense work.

During 1942, some of the more important activities of the subsidiary companies contributing to the war effort were as follows:

Arkansas Louisiana Gas Company —

This company provided natural gas supply facilities to four additional Government war plants and contracted to construct distribution facilities and supply natural gas to 30 Federal and defense housing projects, involving a total of 4,032 units.

The construction of the pipe line system from gas producing areas in Southern Arkansas to aluminum plants in Central Arkansas was completed and the system placed in operation.

Arkansas Fuel Oil Company —

This company began the construction of a gas cleaning plant in sour gas fields in Southern Arkansas to remove undesirable elements from gas to be used in supplying war plants. This construction proceeded as rapidly as receipt of materials would permit. Facilities to recover liquid hydrocarbons, components of high octane gasoline and butadiene, were also under construction.

Facilities at its Waskom Gasoline Plant were increased to provide additional gas from this area to meet war plant requirements.

During the year, drastic changes in the method of transporting refined products from its Bossier City Refinery were made in cooperation with efforts of the Government to relieve the supply situation in the East Coast Area. Truck loading facilities were constructed to permit maximum use of truck transportation, and lease of the 8" products pipe line previously used in transporting refined products to the Texas Gulf Coast was relinquished for use in a project designed to transport gasoline from the Gulf Coast Area to a point on the Mississippi River near Helena, Arkansas.

Rail tank cars released by changes in method of transportation were immediately placed at the disposal of the Government for East Coast service.

Arkansas Pipeline Corporation —

This company increased its tank car loading facilities in the Shreveport Area, to shorten the rail haul and increase the effectiveness of available tank car equipment in moving East Texas crude oil to the East Coast Area.

Public Utility Holding Company Act: In the proceedings under Section 11(b) (1) of the Public Utility Holding Company Act of 1935 instituted by the Securities and Exchange Commission with respect to Cities Service Company and its subsidiaries, involving the relation of the Corporation and its subsidiaries to Cities Service Company and of the Corporation to its subsidiaries, testimony has been completed and the matter submitted to the Commission for decision.

Your Board wishes to express its grateful acknowledgement and appreciation of the loyalty and cooperation of the employees of the Corporation and its Subsidiaries.

Respectfully submitted,

BOARD OF DIRECTORS,

BY: DAVID W. HARRIS,
Vice President and General Manager.

April 22, 1943.

ARTHUR YOUNG & COMPANY

Accountants and Auditors

New York

To the Board of Directors,
Arkansas Natural Gas Corporation,
Shreveport, Louisiana.

We have examined the balance sheet of Arkansas Natural Gas Corporation and the consolidated balance sheet of Arkansas Natural Gas Corporation and its subsidiaries at December 31, 1942 and the related statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Except that it was impracticable to obtain independent confirmation of accounts due from agencies of the U. S. Government as to which we satisfied ourselves to the extent which we considered feasible under existing conditions, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheets and related statements of income and surplus, together with the notes thereon, present fairly the financial position of Arkansas Natural Gas Corporation and of the corporation and its subsidiaries at December 31, 1942 and the results of their operations for the year ended that date, in so far as they are now reasonably determinable in the light of the circumstances referred to in Note 1 to the statement of consolidated income, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.,
March 16, 1943.

ARKANSAS NATURAL GAS CORPORATION

CONSOLIDATED

At December 31, 1963

ASSETS

CAPITAL ASSETS:

Leaseholds, oil and gas producing properties, storage facilities, pipe lines, refineries, service stations, distribution system, etc., including intangibles (amount undetermined) at book value (Note 1)		\$ 98,670,650.25
Excess of investment in securities of subsidiary companies herein consolidated over equity in net assets thereof at dates of acquisition		13,012,267.86
Investments—		
In 50% owned company, at cost—		
Lisbon Gasoline Company, Inc., capital stock (approximate net worth applicable thereto per that company's financial statements—\$176,191.20)	\$ 169,039.00	
In capital stocks of mutual service companies, at cost	65,000.00	
Miscellaneous securities, at or below cost, less reserve \$50,000.00	163,423.82	
Cash surrender value of life insurance policies	30,820.00	428,282.82
		<u>112,111,200.93</u>

CURRENT ASSETS:

Cash in banks and on hand	4,461,831.71	
U. S. Treasury Bonds, at cost	10,000.00	
Customers' accounts receivable, including unbilled gas revenue, less reserve \$271,470.67	2,665,379.01	
Merchandise accounts receivable, including installment contracts extending beyond one year, less deferred carrying charges \$13,207.53 and reserve \$28,575.13	112,945.68	
Due from agencies of U. S. Government	1,705,070.91	
Current accounts with affiliated companies	90,719.03	
Miscellaneous accounts and notes receivable, less reserve \$32,328.20	406,592.74	
Crude and refined oils, at cost (Note 2)	3,194,394.02	
Accessories and merchandise for resale, at or below cost	291,533.08	
Materials (including construction materials) and supplies, at or below average cost	1,365,436.55	
Prepaid insurance, rentals and other expenses	202,632.89	14,506,535.62

OTHER ASSETS:

Special cash deposits	26,468.88	
Accounts and notes receivable—not current, less reserve \$162,177.25	52,310.39	
Unliquidated proceeds of leases sold, recoverable solely out of future production, less reserve \$125,000.00	\$129,628.46	
Less: Reserve for unearned income	103,424.80	26,203.66
Advances to personnel	1,694.00	106,676.93

DEFERRED CHARGES:

Unamortized debt expense	74,816.29	
Other deferred charges and miscellaneous unadjusted debits	103,143.07	177,959.36

\$126,902,372.84

See pages Eight and Nine for Schedules and Notes.

ATION AND SUBSIDIARY COMPANIES

BALANCE SHEET

er 31, 1942

CAPITAL AND LIABILITIES

CAPITAL STOCK OF ARKANSAS NATURAL GAS CORPORATION, per schedule attached:

Preferred stock	\$ 21,875,860.00
Common stock	4,080,601.00
Class A Common stock	3,522,271.25
Reserve to provide for exchange of stock of predecessor company	3,751.90
	<u>29,482,484.15</u>

MINORITY INTEREST IN SUBSIDIARIES:

Arkansas Fuel Oil Company—		
Preferred 6% Cumulative—8,735 shares of a par value of \$10 each	\$ 87,350.00	
Orange State Oil Company—		
Common stock (\$100.00) and surplus (\$26.81)	126.81	87,476.81

FUNDED AND OTHER LONG TERM DEBT:

Subsidiary companies, per schedule attached—		
First mortgage bonds (\$750,000.00 due in 1943) (Note 3)	11,200,000.00	
General mortgage notes (\$66,000.00 due in 1943)	310,000.00	
Mortgage notes, maturing after one year	36,375.00	
Notes payable to banks, maturing after one year (Note 4)	4,575,000.00	16,121,375.00

LIABILITY TO STOCKHOLDERS OF LOUISIANA OIL REFINING CORPORATION, payable in preferred stock or cash of Arkansas Fuel Oil Company

30,670.25

CURRENT LIABILITIES (exclusive of \$816,000.00 for 1943 requirements in respect of funded debt):

Notes payable—		
Banks (Note 4)	900,000.00	
Trade	162,609.19	
Purchase money obligations—		
Notes payable given as part consideration for purchase of stock of subsidiary herein consolidated, secured by 719,487 shares of stock acquired, deposited in escrow	\$133,185.80	
Other	5,925.00	
	<u>139,110.80</u>	
	1,201,719.99	
Accounts payable	2,739,854.38	
Current accounts with affiliated and mutual service companies	15,004.87	
Accrued interest on funded and other long term debt	144,219.13	
Accrued interest, taxes and other charges	1,013,182.93	
Customers' deposits	808,353.48	
Provision for federal income taxes (subject to final determination by U. S. Treasury Department)	2,237,353.22	8,159,688.00

OTHER LIABILITIES:

Drilling and lease costs payable out of future production (\$257,359.24 thereof secured by mortgage on wells)	546,013.03	
Advances for line extensions (including \$1,811,913.36 from agencies of U. S. Government)	1,869,238.27	
Miscellaneous accounts	6,497.27	2,421,748.57

RESERVES:

For depletion, depreciation and retirements, as provided by companies	29,577,056.32	
Injuries and damages	2,495.38	
Contributions for extensions—not refundable	287,052.34	29,866,604.04

SURPLUS:

Capital surplus	22,406,832.28	
Earned surplus of merged companies at date of merger	3,955,385.07	
Earned surplus (Notes 3, 4 and 5)	14,370,108.67	40,732,326.02
		<u>\$126,902,372.84</u>

Preferred stock dividends unpaid amount to \$1.95 per share or \$4,265,792.70.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES
SCHEDULES TO CONSOLIDATED BALANCE SHEET
At December 31, 1942

Capital Stock of Arkansas Natural Gas Corporation

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,748 shares, less in treasury 3,162 shares; outstanding 2,187,586 shares	\$ 21,875,860.00
---	------------------

Common—no par value:

Authorized 4,084,225 shares; issued 4,083,878 shares, less in treasury 3,277 shares; outstanding 4,080,601 shares—stated at	4,080,601.00
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Class A Common—no par value:

Authorized 4,000,000 shares; issued 3,522,521 ¹ / ₄ shares, less in treasury 250 shares; outstanding 3,522,271 ¹ / ₄ shares—stated at	3,522,271.25
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Reserve to provide for exchange of stock of predecessor company

(340.49 shares of preferred stock at \$10 per share and 347 shares of common stock at \$1 per share)	3,751.90
	\$ 29,482,484.15

Funded and Other Long Term Debt of Subsidiary Companies

Arkansas Louisiana Gas Company:

First Mortgage Bonds—

2 ³ / ₄ % Series A, due 1943-1944 (\$750,000.00 due in 1943)	\$ 1,500,000.00	
3 ¹ / ₂ % Series B, due 1945-1954	9,700,000.00	\$ 11,200,000.00

Arkansas Fuel Oil Company:

Mortgage Notes, maturing after one year	36,375.00	
Notes Payable to Banks, maturing after one year	4,575,000.00	4,611,375.00

Orange State Oil Company:

General Mortgage Notes, due 1943-1947 (\$66,000.00 due in 1943)	310,000.00
	\$ 16,121,375.00

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED BALANCE SHEET

At December 31, 1942

Note 1:

The Federal Power Commission has prescribed a uniform system of accounts for natural gas companies under its jurisdiction, effective January 1, 1940, which requires a study and restatement of gas plant of Arkansas Louisiana Gas Company, a consolidated subsidiary, to be made and completed by January 1, 1942 (extended to June 30, 1943) and a change from retirement to depreciation accounting. Until the necessary studies are completed, it is not known to what extent the accounts will be affected.

Note 2:

Inventories of crude and refined oils have been valued at cost, which is lower than aggregate market. Such cost for crude oil is on a last-in first-out annual basis and for refined oils on an average monthly basis. The cost of crude oil comprises purchases and production at average gravity posted prices, plus gathering and transportation charges at tariff rates. Refined oils at refinery and wholesale terminals and at bulk and service stations are priced at refinery cost, or at cost in the case of outside purchases, plus freight and handling. The amount of inter-company profit included in crude and refined oil inventories cannot be readily ascertained.

Note 3:

Under the terms of the original and supplemental indentures securing the First Mortgage Bonds, Series A or B, of Arkansas Louisiana Gas Company, a consolidated subsidiary, that company cannot, so long as any of the said bonds remain outstanding, make payment of interest or principal on the 4¼% Debenture (eliminated in consolidation), or declare and pay any dividends (except stock dividends) or make any other distribution on its Capital Stock to its parent, Arkansas Natural Gas Corporation, or make any cash advance or loan to any affiliates except out of earned surplus accumulated since August 31, 1939, after giving effect to any excess of depreciation charges computed as provided in the indenture over the amounts recorded on the books (no additional depreciation provision was necessary). The indentures further provide that no dividends may be paid or other distribution made unless immediately after such payments the company has a certain definite current asset to current liability ratio. The restrictions thus imposed on earned surplus at December 31, 1942 aggregate \$4,116,110.80, which amount includes \$479,841.76 due to the restriction imposed by the current asset to current liability ratio provision.

Note 4:

Under the terms of agreement in connection with notes payable to banks of \$5,475,000.00 certain restrictions are imposed on Arkansas Fuel Oil Company, a consolidated subsidiary, including restrictions in respect of payments of dividends and on amounts due any parent company if such payments reduce cash balances or net current assets below certain stipulated amounts.

Note 5:

Under the consent decree entered by the U. S. District Court on December 23, 1941, pipe line earnings since January 1, 1942 in excess of 7 per cent of a calculated Interstate Commerce Commission valuation are restricted as to distribution and use. In accordance therewith the Company is reporting to the Attorney General of the United States that \$71,920.18 of the earnings for 1942 of the Arkansas Pipeline Corporation, a consolidated subsidiary, is so restricted.

Contingent Liabilities:

Under suits and claims pending—amount indeterminate. It is estimated by counsel for the companies that the ultimate liability in respect of pending litigation and claims of substantial amount will be negligible.

Dividends aggregating \$3.60 per share have been declared payable to stockholders of Louisiana Oil Refining Corporation, who may become holders of the preferred stock of Arkansas Fuel Oil Company, a consolidated subsidiary, by reason of the surrender and exchange of their stock in Louisiana Oil Refining Corporation. The maximum amount involved at December 31, 1942 is \$2,970.00.

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME

For the Year Ended December 31, 1942

GROSS OPERATING REVENUE (after deducting allowances):

Crude and refined oils and accessories	\$ 32,016,792.66	
Natural gas	9,361,322.99	\$ 41,378,115.65

OPERATING AND OTHER EXPENSES:

Cost of sales, operating, selling, general and administrative expenses (including operations from merchandise sales and job work, and provision for bad debts)	26,611,690.40	
Maintenance and repairs	1,538,664.72	
Appropriation for depletion, depreciation and retirements, as provided by companies (Note 2)	4,107,529.59	
Cancelled undeveloped lease and dry hole expenses	514,514.95	
Rents and royalties (exclusive of oil royalties)	813,496.53	
Taxes (other than income taxes)	2,086,530.12	35,672,426.31

NET OPERATING REVENUE		5,705,689.34
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OTHER INCOME:

Carrying charges collected on merchandise installment sales	21,708.35	
Interest	6,691.11	
Dividends	54,182.00	
Profit on leases sold	117,309.86	
Cash discounts	46,611.08	
Miscellaneous	39,467.47	285,969.87

GROSS INCOME		5,991,659.21
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INTEREST AND OTHER CHARGES:

Interest on funded debt (including purchase money obligations)	413,184.28	
Other interest	272,394.44	
Amortization of debt expense	11,699.93	
Miscellaneous income deductions	30,688.18	
Proportion of net income of subsidiaries applicable to minority interests— Dividend paid on Arkansas Fuel Oil Company Preferred Stock \$6,178.50 Orange State Oil Company 15.51	6,194.01	734,160.84

5,257,498.37

PROVISION FOR INCOME TAXES:

Federal income taxes (no excess profits tax is expected)	2,008,687.92	
State income taxes	67,615.38	2,076,303.30

NET INCOME		\$ 3,181,195.07
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See page Eleven for Notes.

STATEMENT OF CONSOLIDATED SURPLUS

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1941	\$39,120,355.10	\$22,406,832.28	\$3,955,385.07	\$12,758,137.75
Add: Net income for the year ended December 31, 1942	3,181,195.07	—	—	3,181,195.07
Excess accruals for federal income taxes for prior years	399,596.95	—	—	399,596.95
	42,701,147.12	22,406,832.28	3,955,385.07	16,338,929.77
Less: Dividends paid on preferred stock—90c per share	1,968,821.10	—	—	1,968,821.10
BALANCE AT DECEMBER 31, 1942	\$40,732,326.02	\$22,406,832.28	\$3,955,385.07	\$14,370,108.67

ARKANSAS NATURAL GAS CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO STATEMENT OF CONSOLIDATED INCOME

For the Year Ended December 31, 1942

Note 1:

Due to war conditions it is impossible to state to what extent, if any, the consolidated accounts of the Company will be affected by the following:

- (a) The Company's consolidated subsidiaries have incurred substantial additional costs in the transportation of their products for the Eastern seaboard business by overland routes instead of by tankers. The theoretical proceeds arising from higher prices allowed specifically for this purpose over ceiling prices have been paid into a pool organized, pursuant to request of Petroleum Coordinator for War, for the equitable sharing of revenue and excess cost of transportation by oil companies. From August 1, 1942, excess transportation expenses (with minor exceptions) previously chargeable to the pool were assumed by Defense Supplies Corporation and the companies have billed to it substantial amounts in respect of such expenses. While the companies have made every effort to accurately record the amounts receivable and payable to the pool and the amounts receivable from Defense Supplies Corporation, final determination of the exact liability or asset in respect of these transactions cannot be determined at this time since the audit by independent accountants, acting on behalf of both the pool and Defense Supplies Corporation, has not been completed.
- (b) The contracts of the Company's consolidated subsidiaries with the U. S. Government are subject to renegotiation if excessive profits are considered to have occurred. At the date of this report, renegotiation proceedings had not been initiated either by the Government or the companies and no reserve has been provided in the accounts for any such adjustment, as no material liability is anticipated.

Note 2:

The depreciation provided by the Companies is based on studies made by engineers and represents, substantially, the amount considered necessary by them to write off the undepreciated balance of the property, net of estimated salvage, during its remaining useful life, including allowances for replacements necessary during that period.

The provision made for depletion of producing oil and gas properties is determined on an overall basis by dividing the recoverable oil and gas reserves estimated by engineers into the undepleted cost of the producing properties, net of estimated salvage, plus the estimated future development cost on the said reserves. As a result of the contiguity of the Companies' oil and gas properties and the fact that the variation in costs between leases is in the average not material, the amount so provided on an overall basis is not materially different from the aggregate amount that would result from computations made on a lease basis.

No provision has been made to write off the excess cost of investments in securities of subsidiary companies over the equity in net assets at date of acquisition, which amount is included in capital assets.

ARKANSAS NATURAL

BALANCE

At Decem

ASSETS

INVESTMENTS:

Securities of subsidiary companies	\$ 59,907,660.11
Advances to subsidiary company	200,000.00
Investment in 50% owned company, at cost—	
Lisbon Gasoline Company, Inc., capital stock (approximate net worth applicable thereto per that company's financial statements—\$176,191.20)	169,039.00
Investments in other securities at nominal value	7.00
Miscellaneous investments—plant, etc., at book value	322,971.01
	<u>60,599,677.12</u>

CURRENT ASSETS:

Cash in banks and on hand	\$ 207,918.20	
Current accounts with subsidiary companies	222.22	
Interest receivable on Arkansas Louisiana Gas Company Debenture	<u>92,083.34</u>	300,223.76

OTHER ASSETS:

Miscellaneous special funds	425.00	
Notes and accounts receivable (less reserve \$366.98)	<u>250.00</u>	675.00

\$ 60,900,575.88

GAS CORPORATION

SHEET

ber 31, 1942

CAPITAL AND LIABILITIES

CAPITAL STOCK:

Preferred 6% Cumulative—\$10 par value:

Authorized 2,193,000 shares; issued 2,190,748 shares, less in treasury 3,162 shares; outstanding 2,187,586 shares	\$ 21,875,860.00
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Common—no par value:

Authorized 4,084,225 shares; issued 4,083,878 shares, less in treasury 3,277 shares; outstanding 4,080,601 shares—stated at	4,080,601.00
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Class A Common—no par value:

Authorized 4,000,000 shares; issued 3,522,521 $\frac{1}{4}$ shares, less in treasury 250 shares; outstanding 3,522,271 $\frac{1}{4}$ shares—stated at	3,522,271.25
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Reserve to provide for exchange of stock of predecessor company

(340.49 shares of preferred stock at \$10.00 per share and 347 shares of common stock at \$1.00 per share)	3,751.90
	<u>29,482,484.15</u>

CURRENT LIABILITIES:

Accounts payable	\$ 6,050.06	
Current account with subsidiary company	156.27	
Current account with mutual service company	1,330.11	
Accrued taxes and other charges	39,296.69	
Provision for federal income taxes (subject to final determination by U. S. Treasury Department)	199,082.18	245,915.31
	<u>199,082.18</u>	

RESERVES:

For depreciation and retirements of plant as provided by company	94,319.09
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SURPLUS:

Capital surplus	22,406,832.28	
Earned surplus of merged companies at date of merger	3,955,385.07	
Earned surplus	4,715,639.98	31,077,857.33
	<u>4,715,639.98</u>	<u>\$ 60,900,575.88</u>

Preferred stock dividends unpaid amount to \$1.95 per share or \$4,265,792.70.

CONTINGENT LIABILITIES:

Under suits and claims pending—amount indeterminate.

ARKANSAS NATURAL GAS CORPORATION

Statements of Income and Surplus For the Year Ended December 31, 1942

STATEMENT OF INCOME

GROSS INCOME:

Interest on indebtedness of subsidiary company	\$ 8,000.00	
Interest on Arkansas Louisiana Gas Company debenture	276,250.00	
Other interest	2,753.02	
Dividends from subsidiary companies	1,771,853.25	
Dividends—other	54,000.00	
Pipe line rental from subsidiary company	65,951.53	
Miscellaneous	336.16	\$ 2,179,143.96

EXPENSES:

General and administrative expenses, etc.	43,291.10	
Appropriation for depreciation and retirements of plant as provided by company	19,766.21	
Taxes (exclusive of income taxes)	37,574.51	100,631.82
		2,078,512.14

PROVISION FOR INCOME TAXES:

Federal income taxes (no excess profits tax is expected)	180,755.16	
State income taxes	166.77	180,921.93

NET INCOME		\$ 1,897,590.21
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STATEMENT OF SURPLUS

	Total	Capital Surplus	Earned Surplus of Merged Companies at date of Merger	Earned Surplus
BALANCE AT DECEMBER 31, 1941	\$31,109,088.22	\$22,406,832.28	\$3,955,385.07	\$4,746,870.87
Add:				
Net income for the year ended December 31, 1942	1,897,590.21	—	—	1,897,590.21
Excess accruals for federal income taxes for prior years	40,000.00	—	—	40,000.00
	33,046,678.43	22,406,832.28	3,955,385.07	6,684,461.08
Less:				
Dividends paid on preferred stock—90c per share	1,968,821.10	—	—	1,968,821.10
BALANCE AT DECEMBER 31, 1942	\$31,077,857.33	\$22,406,832.28	\$3,955,385.07	\$4,715,639.98

ARKANSAS NATURAL GAS CORPORATION

Incorporated under the Laws of the State of Delaware, U. S. A.

Shreveport, Louisiana

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